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Number 6

AGRICULTURE:
THE CHALLENGE OF
THE GLOBAL MARKET

FREER TRADE

FOOD SAFETY

FOOD AID

June 1996

ECONOMIC PERSPECTIVES

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ECONOMIC PERSPECTIVES

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□ PROSPECTS FOR FREER AGRICULTURAL TRADE

An Interview with Eugene Moos, Under Secretary of Agriculture for Farm and Foreign Agricultural Services

“What we have to remember is that the Uruguay Round was the first step toward agricultural trade liberalization,” says Eugene Moos, one of America’s top-ranking agricultural officials. Moos, the Under Secretary of Agriculture, predicts that future negotiations will focus on further tariff reductions and on getting countries to agree to make domestic farm policies less trade distorting.

The United States will continue working for fair trade in the interim in the Organization for Economic Cooperation and Development and other international fora, Moos says. For example, it will press countries that use single-desk export sales arrangements to agree to greater price transparency.

This interview was conducted by USIA Economics Writer Jeanne Holden.

Question: *Some people question how much agricultural trade liberalization actually resulted from the Uruguay Round and point to the European Union’s (EU) subsidy programs and U.S. sugar quotas. How would you respond?*

Moos: The Uruguay Round was designed to bring greater discipline and order to world trade in agricultural products by reducing countries’ trade-distorting subsidy programs, as well as providing greater access to agricultural markets. The agreement moves countries toward an import-tariff system in which quotas and nontariff barriers are converted to tariffs, which are to be gradually reduced, thereby reducing the barriers to agricultural trade. So we are making progress. What we have to remember is that the Uruguay Round was the first step toward agricultural trade liberalization. Some people say it was a modest step, and I would agree. The important thing is that we’re beginning to achieve some breakdown in agricultural trade barriers.

In terms of our import-sensitive commodities, we are committed to reducing our import barriers over the long term. But I do not see any rapid changes.

Q: *Could you compare U.S. and EU government support to agriculture?*

Moos: The Europeans presently provide much more support to their agricultural sector than does the United States. The EU will be budgeting about \$51 or \$52 billion for agriculture programs in the coming year, whereas the United States does not expect to spend more than \$8 or \$9 billion. Moreover, the EU’s agricultural support continues to grow. It increased about 10 percent last year and is expected to increase again this year. In contrast, the United States continues to decrease its level of budgetary support for American agriculture. The United States will continue to press the EU to lower its trade-distorting forms of government support for agriculture since we are lowering our own. They have agreed to meet the disciplines of the Uruguay Round agreement.

Q: *How well does the new U.S. farm legislation reorient U.S. farm programs to meet Uruguay Round commitments? How would you respond to a European newspaper that characterized the farm bill as an attempt to monopolize world trade?*

Moos: The new farm legislation ends our production control programs for many crops and makes American agriculture much more dependent on the export market. Because of that, we will be looking for ways to enhance our ability to compete in world markets. But not with the use of trade-distorting kinds of domestic subsidies. The Uruguay Round agreement allows for “green-box” policies (domestic policy measures with a minimal impact on trade) such as certain types of market promotion and development expenditures. The new farm bill is designed to maximize our use of green-box initiatives as we move away from direct subsidies. So while the United States is not aiming to monopolize world trade, we are aimed at increasing our percentage of export markets. We want to be more competitive in a fair, open fashion that does not violate any trade agreement.

Q: The new farm bill has been said to target such foreign government agricultural trading entities as the Canadian and Australian Wheat Boards. What does this mean?

Moos: Some countries like Canada, Australia, and New Zealand have what they call single-desk export sales arrangements. That means there is a single entity responsible for selling all of the production of a certain commodity into the world market. This trading approach provides a competitive advantage, particularly when it is not done in a transparent manner. The United States looks upon this type of selling arrangement as unfair trade competition. We expect countries that use single-desk trading to adjust their operations so that they're not trade distorting, and to do that, they will have to provide more price transparency. This may come up in the multilateral agricultural trade negotiations scheduled for 1999, but in the interim we are going to pursue it through the Organization for Economic Cooperation and Development and other international fora. We're pressing to get countries that use this approach to agree to greater transparency in order to avoid distorting competitive trade.

Q: If U.S. commodities are so competitive, why does the farm bill reauthorize U.S. export subsidy programs?

Moos: Until all the other competitor countries end their export subsidy programs, the United States needs to continue to have the legislative authority to counteract their export subsidy programs. We look forward to having an opportunity to eliminate all forms of export subsidies. If other countries will engage in fair and open trade, so will the United States.

Q: The farm bill includes language to protect farmers from the effects of any embargoes passed because of limited domestic supply. Given current tight grain supplies, might the United States restrict or discourage grain exports?

Moos: There has been some speculation that the United States might embargo wheat exports because of the very tight supply. But there is no reason for an export embargo.

We're going to produce less than an average crop of winter wheat this year because of a drought. That will mean tight U.S. wheat supplies, which means some continuation of strong prices. We expect our export volume this year to be less than last year, but that will be determined by the market through prices, not through any form of federal government intervention.

Q: Between now and 1999, what issues, sectors, or regions do you predict will be the focus of most agricultural trade disputes?

Moos: I see most of the disputes arising in the area of sanitary and phytosanitary standards (SPS). Because of the conversion of nontariff barriers to tariffs under the Uruguay Round agreement and, even more importantly, because of the tight supply and high demand situation that has reduced the need for export subsidies, we are operating in a much more fair and open trade environment. There is less opportunity for governments to intervene directly. Sanitary and phytosanitary standards are contentious because some countries are attempting to use SPS barriers to provide the kind of protection for their domestic markets that they previously achieved through quota systems.

There needs to be a greater standardization of SPS across the world. Many developing countries have had little experience in setting up SPS systems, however. Because of that fact, the United States is trying to assist developing countries so that their standards will be based on scientific data. The U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) has the lead in this type of assistance.

Q: Multilateral agricultural trade negotiations are scheduled to resume in 1999. What do you foresee as the major negotiating issues?

Moos: We would expect any new trade agreement emerging from the 1999 negotiations to continue reducing import tariff levels at least at the rate that was agreed to in the Uruguay Round, and hopefully at an accelerated rate. I would also expect future negotiations to focus on getting countries to agree to alter domestic farm policies to make them less trade-distorting. It is in this regard that some of the more sensitive commodity programs, like the sugar program in the United States, would be discussed. This will have to be a gradual process because, when commodities that have been protected are exposed to competition, an economic adjustment has to take place. But if the United States is going to press other countries to accept commodities from us because we have a comparative advantage in producing them, then we have to respond by giving greater access to commodities in which other countries have a comparative advantage. We cannot do this overnight, but we can accelerate this adjustment.

Q: How would you compare the success of the North American Free Trade Agreement (NAFTA) in agricultural trade liberalization to the Uruguay Round?

Moos: We believe NAFTA has been beneficial for all three members — the United States, Mexico, and Canada. Its quantitative record has been somewhat complicated by the economic difficulties associated with the peso devaluation in Mexico, but overall we think it will be a boon to agricultural trade between the three countries. There has been a fall-off in the ability of the United States to sell value-added products to Mexico during the last year because of the weakness of the peso, but even that is beginning to turn around. And when the peso stabilizes, we expect to see our value-added export volume expand again. At the same time, U.S. bulk commodity exports to Mexico have continued to grow. Canadian and Mexican exports to the United States have also increased as our markets have become more open to each other's commodities.

Q: Why has the United States gone to NAFTA for dispute settlement regarding Canadian import duties on U.S. dairy, poultry, and egg exports?

Moos: NAFTA calls for the removal of all agricultural trade barriers between the three countries including tariffs, and we thought that was the rule. But Canada has said that the Uruguay Round agreement to replace import quotas with import tariffs supersedes the NAFTA agreement, and that they can disregard the NAFTA and use the authority of the Uruguay Round to increase tariff barriers for those three commodities. We believe that that is unfair trade because they agreed under NAFTA to open up their market to agricultural products from the United States and Mexico.

Internationally, some other countries have also tried to take advantage of the shift from quotas and licenses to tariffs under the Uruguay Round agreement by imposing much higher import tariffs, in effect, raising the overall level of protection. We have been in a lot of contentious international trade discussions about this practice. Our concern is that Canada is using the authority of the Uruguay Round agreement to increase the level of protection given to these commodities, as opposed to

what was agreed to under the NAFTA.

Q: Does the Asia Pacific Economic Cooperation (APEC) forum have a role in advancing farm-trade liberalization?

Moos: We're optimistic that it does because the majority of the countries that are APEC members have agreed that agriculture ought to be included. This suggests that we can work to accelerate the ratcheting down of import tariffs on agricultural trade between APEC member countries. There has been no agreement yet in that regard, but that will be one of our objectives. It may take a number of years to accomplish, but that's one thing we can pursue.

Q: U.S. agricultural exports are expected to set a record again this year. Where is the growth coming from geographically? To what is it due?

Moos: We will export in excess of \$60 billion worth of agriculture products during the fiscal year that began October 1, 1995. Part of that is due to the tight supply-demand situation, which has led to much stronger prices. We also see continued demand growth, particularly in the Pacific Rim area. As countries such as China, Japan, Korea, and Indonesia continue to show strong economic growth, we expect greater demand for imported food. Japan is importing more value-added and intermediate products, more beef and poultry, and more fruits, nuts, and vegetables. In contrast, in the developing countries, most of the increase is in bulk commodities.

Q: What is the possibility of China's reducing or stopping its agricultural imports from the United States in retaliation for U.S. sanctions?

Moos: On May 15 the United States announced proposed sanctions against the Chinese for their failure to protect intellectual property rights. The Chinese threaten that they will retaliate if we go ahead with these sanctions. But the announcement triggers a process that allows at least 30 days for the two countries to negotiate. So we're still optimistic and hopeful that common sense and common interests will prevail, and we will be able to avoid the sanctions and retaliation that would inhibit trade growth between the two countries. □

□ MOVING TO A GLOBAL MARKET ORIENTATION

An Interview with Keith Collins, Chief Economist, U.S. Department of Agriculture

“The impact of the new farm bill will come from having government income-support payments completely decoupled from farmers’ planting decisions and from putting very few restrictions on what farmers can plant,” says Keith Collins, the U.S. Department of Agriculture’s (USDA) chief economist. “Farmers will be responding completely to market signals, and that’s the best way to promote efficiency and therefore competitiveness in world markets.”

But drought has damaged close to 50 percent of the 1995/96 U.S. winter wheat crop, Collins adds, pointing out that the USDA is forecasting a 25-percent drop in U.S. wheat exports in 1996/97.

This interview was conducted by USIA Economics Writer Jeanne Holden.

Question: *How will the new U.S. farm bill affect U.S. crop production this year and in the long term?*

Collins: There are two fundamental planting provisions in the new farm bill that will affect future U.S. production. The first is the elimination of acreage reduction programs, annual programs that required farmers to set aside a certain amount of their land to balance supply and demand. The second is planting flexibility. In the past, if farmers planted certain crops or too much of a program crop, they would lose their income-support payments from the government. Now they will get their payments, and they can plant almost anything in any proportion. With the more market-oriented planting provisions, we will probably see a little more production across the board. Producers will be able to switch crops much more readily from year to year as relative prices of crops change, and this could be a stabilizing influence on commodity markets.

How will this affect planting decisions? It’s hard to say. The United States has a conservation reserve program in which environmentally sensitive land is withdrawn from production under 10-year contracts. The 1996 farm bill caps the reserve at 14.6 million hectares and gives producers authority under certain conditions to take land out of the reserve before their contracts mature. But

farmers will also be permitted to put land in the conservation reserve. The extent to which future enrollments will replace land that drops out is simply unknown. But with the strong demand in world markets and the fact that we want the conservation reserve program strictly targeted toward environmentally sensitive land, we’re likely to have more land in production in the future. Given high grain prices, we expect a little more land in grain production, except for rice. The 1996 farm bill eliminated provisions under which producers had to plant a certain amount of rice in order to receive income-support payments. So rice production should drop substantially in areas such as Texas and southern Louisiana, where the cost of production exceeds the market return. That will probably mean fewer U.S. rice exports. Rice is not a big U.S. crop, accounting for only about 1 percent of about 320 million acres (128 million hectares) of our principal crops.

Q: *Do you expect these U.S. farm program changes to affect world supply and demand, and, if so, how?*

Collins: We would expect stronger demand and tighter markets in the future whether we had the 1990 or the 1996 farm bill in place. It’s unlikely that we would be using land set-aside programs anyway. So I don’t think the new programs will have a big effect on world supply and demand. The impact of the new farm bill will come from having government income-support payments completely decoupled from farmers’ planting decisions and from putting very few restrictions on what farmers can plant. Farmers will be responding completely to market signals, and that’s the best way to promote efficiency and therefore competitiveness in world markets. That should give our farmers an edge in export competition in the world.

Q: *Will the Uruguay Round agreement result in shifts in crop production among countries as they adjust their domestic farm programs toward greater market orientation and increased market access?*

Collins: Many countries already produce the commodities in which they have a comparative advantage. So we’re going to see some shifting as a result

of the Uruguay Round, but not a lot. NAFTA (the North American Free Trade Agreement) provides a good example. Mexico will buy more corn from the United States in future years because the United States is a much more efficient producer of corn than Mexico. In return, Mexico is probably going to expand its production and exports of fruits and vegetables.

Another key impact of the Uruguay Round will come from discipline in the use of export subsidies. For example, with reform of the Common Agricultural Policy, the European Union cannot subsidize its exports to the same extent as in the past, so it is limiting its production of two key exports, dairy products and wheat. So we're seeing production shifts as a result of less export subsidization of surplus production around the world.

Q: What is the crop supply and price outlook for the year ahead? Will there be price relief for food-importing nations?

Collins: The world entered the 1995 season with reduced stocks and tighter markets following the drought in Australia in 1994, when its crop was cut by 50 percent. On top of that, in 1995, the United States had a reduced crop, and world demand was very strong. When the 1995/96 wheat crop year ended on June 1, 1996, the United States had one of the lowest carryover levels of wheat stocks in its history. As a result, we have had very high prices. Farmers received an average of \$4.50 a bushel for their 1995 crop — an all time-record.

So it's important that we have good crops in 1996, and, unfortunately, we're not off to a very good start in the United States. This winter five key southern Plains states had the least rainfall since we started keeping records in 1896. As a result, close to 50 percent of the U.S. winter wheat crop is rated poor or very poor, and the harvest is going to be greatly reduced. Meanwhile, planting of our spring crop has been delayed because of cold, wet weather in the northern Plains and in the upper Midwest. We still hope to have a reasonably good spring crop, but winter wheat normally accounts for three-fourths of our total wheat production. Therefore, we are forecasting a total wheat crop in 1996 of 2.1 billion bushels, about 350 million bushels lower than it would have been with normal weather. Total supply — production plus stocks left from last year's crop — will be down about 10 percent from last year's low level.

So we are not going to be able to fulfill the level of demand in 1996/97 that we did this past year. Without

enough supplies, our exports will come down about 25 percent, from 1.3 billion bushels in 1995/96 to an expected 975 million in 1996/97. But the weather in Northern Hemisphere countries has been very good except in the United States and Canada, and we expect to see a sizeable increase in wheat production in other countries.

Q: How long are high global prices and tight global supplies of grains expected to persist? Why?

Collins: We're expecting farm-level wheat prices for the 1996/97 crop to set yet another record, averaging in the range of \$5.00 a bushel compared with this past year's \$4.50 a bushel. Before we knew about the reduced yields in 1995 and the 1996 winter wheat problems, we thought wheat prices would average about \$3.50 a bushel. So we've gone from an expected level of about \$3.50 a bushel to about \$5.00 a bushel. Looking beyond 1996/97, world crop supplies are so low that it will take a couple of years to rebuild them to what might be considered a normal level. So above-average wheat prices may well persist for a couple of years beyond 1996/97.

But agricultural markets are funny beasts. They can change very quickly. If everybody gets a bumper crop in one year, prices will plummet as fast as they went up.

Q: How long will low U.S. feed-grains supplies persist, and how will this affect U.S. beef supplies?

Collins: Corn is the backbone of the U.S. livestock and poultry industry. For the 1995/96 season that ends this September 1, we expect to have the lowest end-of-season corn stocks as a percentage of use that we have had in 60 years: about a 13-day supply. It's a very, very tight supply situation, and that's reflected in corn prices that are currently 100 percent higher than a year ago. The good news is that this is going to stimulate corn plantings. With a typical yield this summer, we will replenish our stocks, and corn prices will return to a near normal level. But if we don't get a good yield, our livestock and poultry industry will be under great financial stress and jeopardy.

Corn price increases have raised the price of feed dramatically, and we have seen a pick-up in slaughter of cattle. Cattle prices have dropped dramatically, 20 to 35 percent, depending on the type of cattle. As a result, President Clinton took steps this spring to stabilize cattle prices. One step was to allow animals to be grazed on most of the 14.6 million hectares of the U.S.

conservation reserve. This should provide a supply of feed to ranchers, so they will not have to liquidate their breeding cattle. If breeding animals were liquidated, it would mean much lower beef supplies and much higher consumer prices in 1997 and beyond. The key thing is to maintain the livestock industry between now and late September, when the corn crop is harvested.

Q: Experts say that the tight agricultural supply conditions are largely a function of global demand growth. Where is the growth coming from?

Collins: Import demand has been very strong in 1995/96, despite the high grain prices. But where the grain goes has changed over the last decade. The former Soviet Union used to be a dominant grain importer and is now virtually nonexistent as such. China has replaced it as a much more important grain importer. But the main source of growth is the Asian countries, where demand for all kinds of products — not just grains, but fruits, vegetables, and meat also — has been expanding.

Many factors are making demand today and in the future different from the last 20 years. First is the strong economic growth in Asian and Latin American countries. Second is that this growth is concentrated in urban areas, which are import centers. Urban income growth rates are much higher than total country growth rates. Then there is the growth of middle classes in many countries. There is also the Westernization of diets in many Asian countries, which is being enhanced by Western-style food-retailing structures, from McDonalds to Coca Cola to supermarkets like Giant and Safeway. We also have much better port facilities, refrigeration facilities, and

infrastructure to import not only bulk commodities but also higher-value and processed commodities. And the exchange rate for the dollar has been fairly favorable. On top of these factors is trade liberalization resulting not just from the Uruguay Round but also from bilateral negotiations that have opened up market after market, from apples in Japan to beef in Korea.

All of those factors together have changed the global market. Without abrupt policy changes in any dominant countries, the underlying fundamentals look very good for continued strong demand growth.

Q: The new farm bill would protect farmers from the effects of embargoes taken to protect a limited domestic crop supply. Given current tight grain supplies, might the U.S. restrict grain exports?

Collins: I do not foresee that. There is virtually unanimous opposition within the Clinton administration and the Congress to an agricultural export embargo. Agricultural export embargoes were imposed in the 1970s and early 1980s, and virtually all assessments show them to have been counterproductive. Many people think that those embargoes led, for example, to a permanent loss of market share in commodities such as soybeans. There are a number of protections in legislation, not just the farm bill, that would make it very costly for the United States to impose an export embargo. An even greater disincentive is that the consequences of past embargoes have worked against American agriculture. The market has been doing a pretty good job of allocating scarce supplies so far this year, and I think we will continue to let the market do it. □

□ FAIR TRADE AND FOOD SAFETY: AN UNEASY TRUCE

By Jon Schaffer, USIA Staff Writer

The European beef industry is in crisis. Governments worldwide, reacting to health fears over “mad cow” disease, have closed their markets to British beef. Scientists have been asked to assess what, if any, danger this disease has for humans. Meanwhile, public concerns about the safety of beef have sent prices plunging.

The “mad cow” issue illustrates the challenges governments face in protecting the health concerns of their populations while meeting their commitments to free trade. To what extent should British beef have been banned, and for how long?

Restrictions on agricultural trade have been around almost as long as countries have engaged in international commerce. Many such barriers, usually in the form of quarantines, are legitimate attempts to keep harmful pests and diseases from entering areas where they otherwise are not found. But other bans are disguised trade barriers used to protect a domestic industry from international competition, according to U.S. government officials and agricultural industry experts interviewed by USIA.

Many countries impose bans on farm commodities with no justification and have never had to justify them, says Ambassador Ira Shapiro, general counsel at the Office of the U.S. Trade Representative (USTR).

The cost of these numerous sanitary and phytosanitary barriers — health and safety measures used to restrict imports — is in the thousands of millions of dollars annually in terms of lost trade globally and in the hundreds of millions of dollars in U.S. commodity exports, says John Skorburg, senior economist with the American Farm Bureau Federation, a four-million-member federation of farm bureaus located in each of the 50 U.S. states.

In an attempt to meld often competing health and trade issues, member nations of the World Trade Organization (WTO) agreed to a set of sanitary and phytosanitary standards (SPS) under the Uruguay Round global trade accord that went into effect January 1, 1995. Relatively untested, these new standards may be the subject of some of the more difficult and contentious trade issues of the coming decade, the officials and experts say.

“This is a growing area of trade disputes,” says one U.S. trade official, who declined to be identified. “What is most important is that countries now have to do a risk assessment analysis if a measure is taken to protect human, animal, or plant health. We are beginning to look at what countries are doing with more of an eagle eye because we are going to start questioning whether or not they have made that risk assessment analysis.”

In general, the SPS agreement tries to check the use of unjustified, unscientific regulations to restrict trade. Under the new rules, countries have the right to set their own high standards of food safety and animal and plant health. However, any sanitary and phytosanitary restrictions must be based on sound scientific principles. The rules encourage countries to harmonize standards under existing international regulatory bodies, but allow countries to maintain science-based standards that are stricter than international standards. Where restrictions are not based on sound science, they must be discontinued or the country imposing them may be subject to retaliatory trade sanctions.

Also vital to the United States is article 14 of the SPS agreement, which states that countries must accept other countries’ inspection and pest disease control measures, even if these measures differ from their own, if the exporting country can demonstrate to the importing country that its measures achieve a level of protection equivalent to that sought by the importing country.

The SPS dispute most closely watched by the Clinton administration and U.S. industry is the European Union’s (EU) ban on beef from cattle fed growth-producing hormones. This ban goes against the Codex Alimentarius, the international regulatory body that found the U.S.-used hormones safe if properly administered. The EU restrictions are costing the U.S. beef industry about \$90 million annually, and the dispute is currently before a WTO dispute settlement panel.

“It is an excellent test case,” Skorburg says. “What it does is give credibility to the idea that sound science should be what is used to take care of any sanitary, phytosanitary disputes.”

“I would hope this would set the basis for future sanitary and phytosanitary decisions,” one U.S. trade official says, adding that a finding against the EU and in favor of sound science would benefit the whole trading system.

In a separate case, the United States has initiated WTO dispute settlement consultations with Australia over that country’s ban of imports of untreated fresh, chilled, or frozen salmon. The ban was implemented because of concern that salmon diseases in the United States and Canada, if transmitted, would devastate the Australian salmon — a position strongly challenged by both Canada and the United States.

Officials note that Korean inspection requirements and standards and Japanese apple-certification procedures involve products that are not specifically banned from entry but for which onerous health and safety requirements sharply limit and discourage imports. Probably the largest sanitary and phytosanitary dispute currently facing the United States consists of a host of Korean practices aimed at keeping out U.S. commodities.

Korea, the third largest foreign market for U.S. farm exports, requires all fruits to be fumigated; requires incubation testing in which fruit in cold storage must be warmed up for inspection, which causes significant product decay; implements a “zero-tolerance” decay level that requires mandatory sorting through the opening up of each box of fruit or vegetables and removal of each decayed product; requires 100 percent of all shipments to be inspected as opposed to a random, or “suspect,” sampling; and maintains unscientifically based standards for processed food.

For a box of fruit to clear port in Korea, it takes, on average, from two to four weeks and can take up to three months, compared to two to three days in most other Asian markets, U.S. trade officials say. The result is that U.S. industry is losing several thousands of millions of dollars annually in what could be sold if the SPS barriers did not exist. The cost of shipping many products to Korea under these new SPS barriers is becoming increasingly prohibitive, they say.

U.S. officials say that despite Korean promises to improve their system, few actions have been taken to remove the barriers. In fact, they say, the Koreans have been notifying WTO officials in Geneva of corrective actions that have never been taken.

The United States plans to request a formal WTO dispute panel unless Korea changes its practices soon, one official says, noting that there is a lot of interest in the case by other countries because there are variations of Korean barriers found in other markets. On July 1, the United States also will make a determination whether Korea is following through on agreed changes to its “shelf-life” requirements that set a maximum time for products to be on grocery shelves. These were so short that by the time a product had cleared customs procedures, the product was often out of date and could not be sold.

In the case of apple exports to Japan, the phytosanitary requirements are so excessive that many U.S. apple growers who want to export cannot afford to meet the certification conditions, says Chuck Havens, assistant deputy administrator for phytosanitary management at the U.S. Department of Agriculture (USDA).

These requirements include a combination of cold treatment — for as long as 90 days — followed by fumigation of the apples with methyl bromide to prevent the spread of codling moths, a small grayish moth very destructive to apples. For fire blight, a disease that turns apple trees black, the trees must be 180 meters away from any hickory trees. Inspectors from Japan, paid for by the U.S. orchards, inspect orchards three times annually — at the blossom stage, the post-blossom stage, and the early stage of fruit development — to make sure the trees have not been hit by fire blight.

William Bryant, chairman of W.L. Bryant Company, a firm that provides export-marketing assistance to U.S. growers, points out that the fumigation process, which heats up the apple, and the cooling process are excessive: They are expensive, and they reduce the fruit’s shelf life. Japan is the only country that requires the United States to fumigate its apple exports, he said, adding that a more thorough inspection process would likely produce an acceptably equivalent level of protection.

Havens notes that the USDA’s Animal and Plant Health Inspection Service (APHIS), with about 2,500 inspectors, has one of the world’s most extensive systems for the inspection and certification of animals, plants, and certain related products to meet health and sanitary requirements for export from or import into the United States.

“We have sanitary and phytosanitary problems in almost every sector of high-valued horticulture — packaged

fruits and vegetables,” Bryant says, pointing to restrictions on grapes, cherries, and Florida grapefruit in China; grapes and citrus in Australia; and grapes and stone fruit in Mexico. U.S. documents and private-sector experts mention other problem areas: El Salvadoran restrictions on U.S. rice, shelf-life problems in Egypt and Saudi Arabia, and unreasonable poultry and beef requirements in Chile and Venezuela.

According to Havens, U.S. growers have refused to meet Mexican requirements that cherries be fumigated for pests that are already prevalent in Mexico or where the cherry is not even host to the pest required to be eradicated.

“We don’t believe Mexico has a legitimate need for fumigation of cherries,” Havens says. “We don’t ship at this point in time. We think we are coming to a place where ... we have a process designed that Mexico will be able to accept, but will not require fumigation.”

In regional terms, Asia, particularly China, maintains a host of SPS barriers, officials and industry experts say.

China, which in 1992 agreed not to use SPS barriers, is “not living up to that obligation,” says Shapiro, citing Chinese barriers to U.S. citrus products, apples, stone fruit, table grapes, and other commodities.

“China is basically a closed market to us except in commodities they are really in need of, such as wheat,” Havens says. “They blanketly prohibit most fruits and vegetables with no published scientific rules to explain the restrictions.” Havens cites the example of how discovery of the Mediterranean fruit fly in California led to China’s ban on all U.S. fruit, even from areas where the pest does not exist.

“China, on one level, wants to join the WTO,” Havens says. “One of the things we must do is convince them that if they want to join they must have transparent, scientifically based rules as the WTO treaty requires.”

Concern about the fruit fly also led Argentina, Brazil, and Ecuador to cut off their imports of fresh U.S. fruit, a decision already reversed by Brazil, says Havens. But he stresses that the U.S. eradication system for exotic fruit flies is one of the most extensive in the world. If one or two flies are discovered, the areas is saturated with traps, which have proven to be effective in eradicating the pests, he says.

Another difficult SPS issue is karnal bunt, a fungal disease affecting the quality — but not the safety — of wheat. Karnal bunt was recently found in durum wheat in the U.S. states of Arizona, California, Texas, and New Mexico. The United States currently has protocols with 21 countries allowing export of its wheat if U.S. inspectors certify that the shipments are from a region that is free of the disease. Much U.S. wheat is exported along the St. Lawrence Seaway and put in grain elevators on the Canadian side of the seaway while in transit. But now Canada will not allow any U.S. durum wheat to be placed in Canadian elevators, even though the bulk of durum wheat is grown in North Dakota and Minnesota, states that have shown no evidence of karnal bunt.

The U.S. Department of Agriculture is currently conducting a survey of all U.S. wheat growing areas, to be completed probably in September, with the aim of assuring U.S. trading partners that the incidence of karnal bunt is very localized and that steps are being taken to eradicate it. If karnal bunt is not found, the United States may be able to use articles 24 to 26 of the SPS agreement, which require that countries, for the first time, institute policies that differentiate between regions of a country that may be disease or pest free and regions where pests or disease exists.

One recent success story, officials say, is the decision by Russia to reverse its ban on U.S. poultry because of concerns about salmonella bacteria and residues. Russia is the United States’ biggest market for poultry. The United States agreed to test farm flocks to make sure there were no residues and to sear the skin and take a core sample of the bird on the slaughter line — the procedure used by the Russians to test for salmonella. U.S. officials believe that searing the skin is an imperfect test for salmonella since it kills most of the bacteria that the Russians are testing for. “But if they want it, that’s what we are going to do,” one official says.

Neither the U.S. government nor the U.S. farm sector is looking to use the WTO as a court to settle the multitude of SPS disputes, officials and farm industry analysts say. Rather, the SPS agreement gives them some new justification in bilateral negotiations to ask countries to explain the scientific basis of their restrictions. The WTO dispute process, they say, is viewed as a last resort when all other consultations fail. □

□ FOOD SECURITY: AID, CONCESSIONAL TRADE, AND DEVELOPMENT

By *Berta Gomez*, USIA Staff Writer

For most of this century, the United States has been the world's leading provider of food assistance to starving people. But when Congress passed a comprehensive overhaul of U.S. farm policies this year, it stipulated that a growing share of the food-aid budget should flow to those countries that are making the economic reforms that will, over time, allow them to become self-reliant.

Officials acknowledge, however, that rising demands for emergency food assistance may frustrate the goal of using food as a tool for development.

In the near term, there will be only modest changes in the programs that, over the past four decades, have provided more than \$53,000 million in U.S. food assistance to countries as diverse as Bangladesh, Russia, Indonesia, Mexico, Angola, and Bosnia.

“FOOD FOR PEACE”

The cornerstone of these programs is Public Law 480 (P.L. 480), also known as “Food for Peace.” Originally driven by the need to dispose of government-owned surplus commodities, P.L. 480 has evolved dramatically since its inception in 1954.

In the mid-1960s, the focus of P.L. 480 shifted from surplus disposal to the promotion of development and nutrition abroad. Food aid to Europe and Japan was phased out as these countries recovered from World War II, and developing countries began receiving the bulk of food assistance. In the late 1970s, the programs were refined to focus on “food security,” an approach that combines development aid, agricultural research, and food aid to help countries become self-reliant. The 1980s saw food assistance become increasingly available to countries implementing agricultural and economic reforms.

One goal of the P.L. 480 program that has not changed is the creation of commercial markets for U.S. agricultural commodities. The farm legislation signed by President Clinton on April 4 maintains this goal and builds on previous reforms, mostly by bringing private organizations more fully into the process of making food

available to needy populations. The various titles under P.L. 480 remain basically unchanged and are reauthorized for the next seven years.

Title I, administered by the U.S. Department of Agriculture (USDA), will continue to offer developing countries 30-year, low-interest loans for the purchase of U.S. agricultural products, which can be resold to generate funds to promote economic growth and development. Now, however, for the first time, Title I concessional sales can be made to private entities, in addition to foreign governments. This will help maximize the benefits of increasingly limited resources, says August Schumacher, administrator of USDA's Foreign Agricultural Service.

“A program of \$2 to 3 million undertaken with a private-sector entity can have a strong market-development impact, while the same amount of money would have very little impact if provided on a government-to-government basis,” Schumacher told a congressional panel during debate on the farm bill.

The new law also stipulates that priority be given to countries engaged in economic-development efforts and those that have the greatest need for food.

USDA officials cite a string of successes under this program, noting that former recipients of Title I sales include Japan, Korea, and Taiwan. More recently, Egypt, Turkey, Indonesia, Sri Lanka, and Morocco — once heavily dependent on P.L. 480 food imports — have become either important U.S. commercial markets or growing cash-and-credit markets.

Title II, administered by the U.S. Agency for International Development (USAID), authorizes the donation of commodities for humanitarian emergencies and for longer-term development needs. In most cases, grants are made to relief and development organizations, such as the World Food Program, which either distribute food directly to needy populations or sell the commodities to generate local currencies.

The new law adds flexibility to Title II by allowing private organizations to take proceeds from commodity sales in one country and use them for development activities in others. The minimum amount of non-emergency commodities that are to be sold for local currency increases from 10 to 15 percent. Minimum levels of assistance through 2002 are kept at 1995 levels: 2,025,000 metric tons for overall Title II food donations, and 1,550,000 metric tons for non-emergency food assistance.

The new law also increases the annual U.S. cash contribution to international relief organizations to help cover the administrative expenses of transporting and delivering food aid. The spending ceiling in this area will more than double, from \$13.5 to \$28 million per year.

In 1995, the United States donated more than \$860 million worth of commodities through Title II programs, providing emergency assistance to people suffering from drought and civil war in Angola, to Burmese refugees in Bangladesh, to victims of strife in Bosnia and Croatia, and to Somali refugees in Djibouti, among others. Humanitarian development programs supported through Title II include mother-and-child health programs in dozens of countries, including Haiti, Honduras, Mauritania, India, and Nepal, primary-school feeding programs in Botswana, and forestry programs in Panama.

Title III, also administered by USAID, provides for government-to-government grants to support economic development and food security in the least developed countries. At one point in 1995, a congressional panel sought to eliminate Title III programs, but that effort failed. The 1996 farm bill keeps Title III in place, although officials suggest it is a vulnerable title. Recipients of Title III commodities in 1995 included Guyana, Ethiopia, and Bangladesh.

OTHER PROGRAMS REAUTHORIZED

Apart from “Food for Peace” activities, the farm bill provides seven-year authorizations for two related food-assistance programs, as well as for the United States’ four-million-ton Food Security Wheat Reserve.

The 1985 “Food for Progress” program, through which the Department of Agriculture donates commodities to countries committed to free-market agricultural reforms, will now allow involvement by intergovernmental and agricultural trade organizations. Although the program is small, providing only about \$113 million in commodities

in 1994, officials say it has been especially useful in easing the transition to open markets in former Soviet republics.

The “Farmer-to-Farmer” program will receive a slight increase in funding. Under this program, the Department of Agriculture uses P.L. 480 funds to send U.S. farmers to work with their counterparts in other countries. Countries designated as “emerging markets” are now eligible for this assistance, along with developing countries.

The new law also expands the range of commodities in the former Food Security Wheat Reserve, now called the Food Security Commodity Reserve. Established in the early 1980s to guarantee U.S. wheat commitments during periods of tight supply, the reserve may now include corn, grain sorghum, and rice — largely because the need for those commodities in Africa is often greater than that for wheat. The reserve, administered by the Department of Agriculture, has been used most often in assisting Africa, but in 1994 it was also used in Armenia and Georgia.

BIPARTISAN SUPPORT FOR FOOD AID

In short, changes mandated by the 1996 farm bill modify — rather than supplant — existing U.S. food-aid policies and continue what are generally seen as effective and useful programs. Disagreements about food aid during the legislative process were reportedly few, reflecting widespread support among Democrats and Republicans.

Food aid is “a two-way highway on which we help others as well as ourselves,” Republican Congressman Bill Emerson, an Agriculture subcommittee chairman, said during farm bill hearings last summer.

“We provide the most basic food and medical help to starving and malnourished people across the globe — which the heart of America demands in a crisis ... (and) we promote development of international markets for America’s farmers,” Emerson said.

The bipartisan support for these programs is also due in part to reforms enacted over the past three decades. Among other innovations, those reforms have helped produce a monitoring and evaluation system that keeps potential problems — such as the disruption of food production in recipient countries — to a minimum.

At USAID, proposed non-emergency projects must be accompanied by a written assessment of needs at the local

and national levels. Officials say they are careful to evaluate the long-term effects of any given program.

“We’ve become much more sophisticated and sensitive to the needs of these countries and the effect that food aid would have, both on the populations themselves and their own interest in being able to take responsibility ... for their livelihoods and overall security,” says Jeanne Markunas, deputy director of the Food for Peace program at USAID’s Bureau for Humanitarian Response.

“We’re continually re-evaluating to make sure that we’re keeping a longer-term focus on how recipient populations can eventually become self-sustaining,” Markunas says. “I myself have seen reforestation and food-for-work activities in Ethiopia — not only to reclaim the land, but to prevent erosion and to be able to grow wood lots that can be used for fuel or for sale.”

The ability to tailor food-aid programs for maximum effect will be increasingly important in an era of tight budgets and growing needs. The U.S. Department of Agriculture predicts that global food-aid needs will double over the next decade, even with reasonably optimistic assumptions about the ability of recipient countries to produce food or import it commercially. At the same time, there is general agreement that the United States and other donor nations are unlikely to increase their food- or other development-aid budgets.

FUTURE FOOD-AID RESOURCES

While the United States remains the world’s single largest provider of food aid, recent cuts mean that spending on such activities will probably hover around the current level of \$1,200 million per year. Aid and development experts worry that budget constraints, coupled with the rise of so-called “complex emergencies,” will further limit the availability of food-aid resources for development.

Jeanne Markunas says that complex emergencies tend to begin with a political event that leads to widespread instability, and large numbers of refugees and internally displaced citizens. This is often complicated by a natural disaster. She cites Rwanda, Liberia, and Angola as examples of countries that have had complex emergencies.

These events present special challenges to the aid community because they are less predictable and tend to last longer than those arising from natural disasters alone. According to Mary Chambliss, a deputy administrator of

USDA’s Foreign Agricultural Service, private aid organizations and some members of Congress have expressed concern that such emergency spending will soon deplete resources for child nutrition and other longer-term development programs.

“There are some real dilemmas when you try to think through what resources the global community can devote to international food aid,” she said. “Especially since long-term emergency needs these days are almost inevitably tied to man-made problems.”

In general, U.S. aid agencies are dealing with budget constraints by carefully targeting assistance and giving priority to countries most in need. Officials are phasing out food-aid programs in countries such as Indonesia and the Philippines, and concentrating a larger share of resources on countries in Africa and on food-deficit countries such as Haiti and Bangladesh.

Moreover, the United States and other donor nations are increasingly expecting aid recipients do their share by adopting policies that help eliminate poverty.

Chambliss believes that developing countries are rising to that challenge. Over the past few years, she says, representatives of developing countries have not only begun to recognize the limits on donor countries’ resources, but to acknowledge “that it may not be such a bad thing — that it is, in fact, time for developing countries to re-think their policies” affecting agriculture.

As a USDA analysis of global food needs stated, “countries are not permanent wards of the food-aid system (but) graduate as their agriculture and economies improve.” South Korea is the perhaps the most widely touted “graduate” of the recent past; the study cited Brazil and Zimbabwe as additional examples of former food-aid recipients that are now commercial importers of U.S. agricultural products.

“Providing food aid is not enough,” according to USAID Administrator Brian Atwood. “Countries must embrace sound economic policies if they hope to lift their citizens out of poverty.”

As Atwood and other officials have made clear, the goal of food aid is not merely to feed the hungry but to help countries reach the point at which they can produce or purchase enough to meet their own needs — and to do so sooner than would otherwise be possible. □

□ AGRICULTURAL LIBERALIZATION IN THE URUGUAY ROUND

By Merlinda D. Ingco, Economist, The World Bank, International Trade Division

Merlinda Ingco has been an economist at The World Bank for 12 years in the fields of agriculture and international trade. The following is abridged from an article in the September 1995 issue of Finance & Development, a publication of the International Monetary Fund/World Bank.

Bringing agricultural trade under multilateral discipline and converting nontariff barriers (NTBs) into tariffs are important achievements of the Uruguay Round. However, the actual liberalization achieved has fallen well short of expectations.

Before the Uruguay Round agreement on agriculture, agriculture was exempt from most multilateral trade rules. A mass of complex nontariff barriers was being used to provide the sector with high and variable rates of protection in many countries. Over time, the volume of agricultural trade subject to these barriers increased in virtually every country in the world.

MAJOR ACHIEVEMENTS

The new agreement went beyond the traditional rules under the General Agreement on Tariffs and Trade (GATT) by covering not only import restrictions but also export subsidies and domestic support programs. To bring order to border protection, the agreement mandates the conversion of all NTBs, except those justified under normal World Trade Organization (WTO) exceptions (for example, balance of payments), into tariffs (a process known as tariffication), subject to agreed maximum rates. It requires the reduction of tariff equivalents and ordinary tariffs over six years (10 years for developing countries) by an average of 36 percent (24 percent for developing countries), with a 15 percent (10 percent for developing countries) minimum cut per tariff item.

Without question, tariffication represents a major reform in agricultural trade rules. It moves agricultural trade toward the same treatment as manufactures under the

GATT and provides for transparency of import protection. Tariffs are generally preferred over other import barriers since they are more predictable, nondiscriminatory, easier to bind or reduce, and less susceptible to corruption; they also facilitate competition in internal markets and help ensure that importing countries adjust their trade to world market changes. By introducing bindings (maximum tariffs that can be applied to any product at the border) on almost 100 percent of agricultural tariff categories, the agreement on agriculture surpassed what had been achieved during 40 years of negotiations in manufactures. In addition to disciplines on import protection, minimum market access opportunities were introduced.

In export competition, the new export subsidy rules impose some discipline on an area where the general GATT principle of prohibiting export subsidies had not been applied and where the specific GATT rules for agriculture based on the concept of "equitable share" were largely ineffective. The agreement defines more precisely the permissible upper limits on the use of export subsidies by country and by commodity. Where countries had no export subsidies in the base period, they are prohibited from using them in the future. The rules require that the export subsidies be reduced by 36 percent in nominal terms over a six-year period, and that the volume of subsidized exports be reduced by 21 percent. An innovation is the anti-circumvention provisions, under which exporting countries must establish that subsidies have not been granted in excess of commitments.

Domestic support policies, measured by the total aggregate measure of support (the annual level of support in monetary terms provided for agricultural products or of nonproduct-specific support provided for agricultural producers in general), should be reduced by 20 percent in developed countries (13.3 percent in developing countries). Reduction commitments refer to total levels of support and not to individual commodities. Since the binding on spending is fixed in nominal terms, it will

erode with inflation and raise the incentive to move to nondistorting policies.

Important direct income-support measures — such as the European Union’s (EU) compensation payments and the United States’ deficiency payments — are exempted from the reduction commitments. Policies that have minimal trade-distorting effects are excluded (for example, general services to agriculture, food security stocks, and domestic food aid). Policies that affect less than 5 percent of the value of production for developed countries (10 percent for developing countries) are also excluded. Aggregate domestic support will be cut to \$162 billion from \$198 billion, and export subsidies will be cut to \$13.8 billion from \$21.3 billion. Virtually all tariffs in agriculture will be bound in the future — that is, subject to ceiling rates.

PROTECTION REMAINS HIGH

Although the Uruguay Round appears to have achieved new transparency in import protection through tariffication, this has come without a great deal of liberalization in most countries. Most developed countries have established new base tariffs that reflect even higher protection than had been provided by the NTBs they replaced. Many countries have set agreed tariff rates at levels significantly in excess of the tariff equivalent of border measures in the chosen base year and of the pre-Round applied rates (1979-93). After the 36 percent reduction is applied to the new base tariffs, tariff rates in the year 2000 will remain very high on many products — in many cases as high as, or even higher than, effective rates prior to the agreement.

A number of countries in Asia, Latin America, and the Middle East, however, reduced protection for some products and locked in earlier unilateral reforms for others. Korea and Indonesia significantly reduced protection for several major products. Some developing countries carried out tariffication, and some also used “dirty tariffication,” to maintain high levels of protection. Most countries in Africa and South Asia declared new tariffs at very high levels (100 to 300 percent) that were unrelated to previous levels of protection. These countries have missed the opportunity to reduce domestic distortions in agriculture and have undermined liberalization efforts. In general, tariffs in Latin American countries tend to be lower than those in other developing countries, reflecting the changes in economic policies the former have made in recent years.

“Dirty tariffication.” The conversion of nontariff barriers into tariffs required the calculation of tariff equivalents of NTBs in a chosen reference period: 1986-88. In principle, countries subject to tariffication were to set initial base tariffs — to be applied in the first year of implementation — so that the resulting protection would be equivalent to the nominal protection in the base period. This base period coincided with very low world prices and generally high levels of agricultural support in the industrial countries, resulting in higher protection than if tariff equivalents had been based on another, more representative period.

Many countries used what had been termed dirty tariffication, because the tariff equivalents were higher than the equivalent of protectionist measures applied under the old system of NTBs. The extent of dirty tariffication varied widely among countries and commodities. It was most common for “sensitive” commodities, such as grains, sugar, meat, and dairy products. Among the industrial countries, it was most extensive in the EU and the countries of the European Free Trade Association (EFTA). The United States practices dirty tariffication in sugar and dairy products, although to a lesser degree than the EU.

Uneven tariff reduction. Most countries were able to satisfy the guidelines by reducing the highest tariffs the least and the lowest tariffs the most or to zero. For politically sensitive commodities that had been protected by nontariff barriers, there was generally a minimum reduction of 15 percent. To offset these minimal cuts, the tariffs on products that already had low tariffs were cut significantly more in percentage terms. The combination of dirty tariffication and the unequal distribution of tariff reductions for many commodities previously protected by NTBs has resulted in continued high protection at the end of the implementation period, as well as unequal rates of protection across commodities in certain countries.

EXPORT SUBSIDIES

The export subsidy commitments made under the agreement seem likely to provide more liberalization than the import tariffication commitments. The new rules limit both the volume of subsidized exports and the nominal value of expenditures as subsidies. The changes will be significant for wheat, meat, and dairy products, but minimal for most other products. The effects of the commitments will depend on the quantity of the product affected, the significance of the reduction relative to total

volume of trade, and the policy adjustments — that is, the changes from price support to direct income support — that occur during the transition period.

MINIMUM ACCESS COMMITMENTS

The minimum access provisions were designed to deal with continued high levels of border protection by ensuring access for a minimum quantity of imports. This was defined as either the existing level or a higher level if current imports did not equal 5 percent of consumption. Opportunities for such access are to be provided by imposing lower tariffs on import volumes up to their minimum access commitments. In most cases, the final access provided is no more than the base-period (1986-88) imports. Despite the most-favored-nation requirement in the agreement, countries were allowed to count imports under existing special arrangements as part of their minimum access commitments. Thus, the United States, for instance, was able to include previous special arrangements for sugar and beef imports in calculating its minimum access requirements. Except for rice, the minimum access commitments will not provide significant additional market access for most products.

DEVELOPING COUNTRY DISTORTIONS

The agreement left many of the worst distortions in developing countries — such as import subsidies, export taxes, state-trading monopolies, and domestic policies that implicitly tax agriculture — outside its scope. The agreement also did not address the issue of differential export taxes that may constitute an implicit subsidy for exports with the lower tax level.

GLOBAL IMPACT

While the agreement includes important systemic reforms in the rules governing world trade for agricultural

products, the actual impacts over the implementation period, particularly in the short term, will be modest. This conclusion applies to both the trade and the world price effects, as they translate into improved access and reductions in export subsidies and domestic support policies. Moreover, any tangible improvements resulting from the agreement will appear slowly, since implementation problems can be identified only in practice, and actual monitoring procedures will evolve under the auspices of the WTO. There will be some increased trade in a few commodities — particularly in rice and in beef and other meats in Asia-Pacific markets — owing to the commitments made on current and minimum access opportunities.

CONCLUSIONS

The Uruguay Round agreement on agriculture has the potential to transform the future policy and trade environments of world agriculture. A ceiling has been placed on such key elements as the levels of tariffs, administered prices, export subsidies, and aggregate domestic support. Further, the improved dispute settlement procedures constitute an important achievement with potentially important positive effects for agricultural trade.

The agreement will prove path-breaking if countries choose to use the agreed rules as a springboard to further liberalization and strengthening of the trading system. During the next negotiation on agriculture, which will be initiated in the year 1999, countries will face the challenge of continuing the reform process. Their decisions will ultimately determine the extent to which the significant systemic benefits of the Uruguay Round are translated into de facto trade liberalization in agriculture. □

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□ 1996: A CROSSROADS FOR THE WORLD GRAINS MARKET

By Germain Denis, Executive Director, International Grains Council

Before joining the International Grains Council (IGC) in 1995, Germain Denis chaired the closing days of the Uruguay Round negotiation on agriculture. The IGC provides independent analysis of world grains markets, as well as a forum for discussion and consultation between grain exporting and importing countries. Some 45 grain economies — covering 90 percent of world grains exports and 65 percent of imports — participate in IGC activities. The IGC Secretariat, based in London, administers the 1995 Grains Trade and Food Aid Conventions.

This is not just another year for the international grains industry. The global grain supply-demand balance is delicate, and the way producers and governments react to market conditions will have long-term effects on global market stability, food security, and further trade liberalization in the grains sector.

Global prices for wheat and coarse grains are higher and supplies tighter than they have been for a generation, and these conditions likely will persist for some time. The international community is nervous. Will exporting countries begin to rebuild stocks within a new global trade environment in which there are fewer trade-distorting government incentives?

Grains exporters are being watched closely to see whether, given tight global grain supplies, they are prepared to fulfill their trade commitments, or if they will instead restrict exports to benefit domestic over foreign consumers.

The international grains market is moving toward more privatization, decentralization, and deregulation as agricultural policy reforms take full effect. The grain economies of Russia and other NIS republics should begin to reap the benefits of their painful market reforms. New U.S. farm legislation could ignite a “farming freedom revolution,” adding momentum to this movement.

Strong market conditions should make it possible for producers to rely primarily on market returns for income, thus restoring real market values globally. Market-

oriented agricultural trade reforms could work for the common benefit of both producers and taxpayers.

This is the first full year of implementation of the World Trade Organization’s (WTO) Agricultural Trade Reform Program, as well as of the International Grains Council (IGC) Grains Trade Convention 1995, with major grain economies like China seeking to join both the WTO and the IGC.

The UN Food and Agriculture Organization’s World Food Security Summit will be held in Rome from November 13-17, 1996, amid warnings of an impending crisis in world grain supplies for developing countries. Food aid availabilities are at their lowest level in 20 years because of severe budget constraints in donor countries. The long-standing front-line role of the grains sector as the source of 80 percent of all food aid, and the willingness of donor governments to respond to the food needs of low-income developing countries, are under close scrutiny.

GRAINS MARKET OUTLOOK

World attention is focused on the outlook for production of wheat and coarse grains. The IGC estimates a world wheat crop of around 560 million tons for 1996/97. This represents a modest wheat production recovery — about 4.5 percent over 1995/96 — permitting little rebuilding of global stocks after a small upturn in consumption. Wheat supply and demand is thus likely to remain very delicately balanced in the near term.

It is hard to estimate the longer-term equilibrium wheat price. The historically (subsidized) low level was \$70 a ton in 1993, and the peak was \$230 (unadjusted) a ton in early 1974 (between \$475 and \$600 a ton in real terms according to grades and origins). However, government interventions so distorted the global grains economy over the last decade that, when the market adjustment was made last year, the price increase was sudden and sharp.

The confusion of these signals was compounded by the substantial decrease in feed consumption and production in Russia and other NIS republics. Further masking

market signals is the fact that an increasing amount of grains trade has been taking place in upgraded forms, such as grain-fed animal products. Thus, although grains trade in recent years appeared relatively static in volume, it is now widely believed that global grains markets have swung from structural surplus to a demand-led situation.

Two other realities will shape global grains trade into the next century. First, developing countries will be the dominant force behind expansion in both wheat and coarse grains. Second, Asia will soon account for half of all grains imports, with most purchases on normal commercial terms.

Some 120 developing countries — for example, Indonesia, with its large population — produce little or no wheat and account for over one-third of world wheat imports. Six years ago, these countries imported 20 million tons; this year, they will import around 30 million tons. The grain import growth of these countries is currently running over 1.5 million tons annually, in line with population increases and rising per capita consumption.

Other countries' wheat imports tend to fluctuate considerably, reflecting annual production levels. Large countries like India and China have demonstrated a greater than anticipated ability to raise yields, but both may be approaching capacity constraints. The production potential in these and many other developing countries is forecast to be outpaced by rising consumption, resulting in a significant increase — forecast at about 2 percent annually — in world wheat trade.

Much of the 1996/97 coarse grains balance sheet will depend on the next U.S. corn crop. At present, the high level of domestic use and continued strong U.S. export sales will require a very large harvest to rebuild stocks from this year's drastically reduced level.

Coarse grains trade is highly concentrated in the expanding livestock markets of Asia, including China, which is expected to continue to be a net corn importer perhaps of some 10 million to 15 million tons by the year 2005.

One region likely to see considerable improvement in coarse grains supplies is southern Africa. Following last year's drought, substantially improved crops of corn and other staple foods are forecast in several countries, likely reducing their imports in 1996/97.

Future feed-grains flows from countries that export both grains and meat products will be influenced by the expansion of meat exports in several large markets in Asia and elsewhere. This partly explains the higher than expected corn use in the United States itself. Similarly, there has been expanded processing of imported grains in several Asian countries for export in a diverse range of food products such as noodles.

For Russia and the neighboring republics, which increased grains imports during the world food crisis in the 1970s, a clear picture of their new grain economies has yet to emerge. The era of huge, centrally organized purchases seems to be yielding to a pattern of trade more sensitive to economic and transportation costs. These changes could lead, for example, to a greater penetration of Russia's Far East market and more fluid regional trade flows within the NIS.

GUIDELINES FOR A FREE TRADE MARKET

The disappearance of large and expensive government-induced surpluses so soon into the WTO Agricultural Trade Reform Program should dispel concerns in some grains-producing economies about the impact of agricultural trade liberalization. Indeed, it might show that domestic grains policy reforms can be initiated without pessimistic predictions about the impacts of trade liberalization being realized.

Hopefully, the stability of grains markets will be more lasting if it better reflects basic competitive strength rather than high export subsidization and import restrictions. Most of world trade in wheat and coarse grains is now conducted with minimum working stocks in major exporting countries. Under these circumstances, the ability of grains importers to count on dependable and competitive suppliers is one of the most tangible benefits of international grains trade. Maintaining stable and open grains trade flows is an integral part of enhancing global food security.

Some regions can produce grains efficiently in amounts exceeding their needs, while others need to access to adequate and secure supplies from abroad. This is why efforts to enhance market stability and world food security should be grounded in stable and open international flows of grain. Market signals should work their way through the production and consumption chains in exporting and importing countries and at times of tight supply-demand conditions and of softer world markets.

Unless grains importers have fair access to commercially available world food supplies, it will be hard to resist some countries' demands for maintaining high national production-to-import ratios for food security purposes. These claims come even from economies highly dependent on external trade for growth and prosperity. Unless grains exporters are reliable, it will be hard to prevent the use of legitimate food security concerns as a disguise to resist more open markets.

As market access barriers to grains and grain products gradually come down, and as the globalization and market orientation of the international grains economy continue to increase, responding to stability and food security concerns will become even more important. Probably nowhere is this more evident than in the Asia-Pacific region where, in some cases, well above 50 percent of both wheat and coarse grains come from imports.

Even in China, net food self-sufficiency is no longer considered realistic. In the longer term, if China imported up to, say, 10 percent of its food and feed needs, this would be equivalent to the share of the market held today by Japan, the world's biggest grains importer. Developments in the Chinese grain economy are hugely important for the world grains market, and vice versa.

Stable trade flows and increased production are critical to ensure that we are not driven to a global food market crisis. With developing countries as the main force driving global trade in wheat and coarse grains, a market-driven food crisis led by the needs of these countries would unquestionably push their import bills still higher. From a grains-market perspective, the low level of return at which wheat was being exported just a few years ago was clearly unsustainable in the long term to increase global production to meet expanding demand.

Three factors are essential to ensure the longer-term food security of developing countries.

- As consumers, developing countries should be able to obtain sufficient foreign exchange earnings on open world markets to buy the food they need. Thus, world markets must be kept open for their exports. Developing countries need to count on the reliability of competitive foreign food suppliers in terms of availability (minimum stocks) and to be certain of the accessibility of supplies.

- As producers, developing countries need to transmit market price signals more effectively to their farmers so as to enhance their own sustainable production potential. In practice, expanding domestic markets in developing countries will more than absorb their growing grains production. The disincentives to increased agricultural production in certain countries, resulting from consumption subsidies, may also need closer examination.

- Developing countries that are sensitive to the uncertainties of international markets must make adequate stockholding capacities, both domestically and in their regular suppliers, a priority. Food aid is essential to respond to emergency situations, but it is a short-term, complementary tool. The risk that it may discourage the expansion of local production needs to be considered.

The timely sharing of common and impartial information — which has increased market transparency — as well as improved analysis of current and future grains market developments, have likely had a significant steadying effect on the world grains market.

Finally, it is interesting to note the increasing role of futures markets as a barometer for the international pricing of wheat. Although futures prices may react in a volatile fashion, reflecting the huge amount of speculative interest they attract at times of perceived scarcity, they are used increasingly by importers to reduce their exposure to price changes and thus to enhance grains market stability.

CONCLUSION

These are, indeed, critical times for the world grains economy. Its longer-term interests will be well served if producers' responses to current market signals are adequate and the reliability of supply is maintained. Otherwise, pessimistic assessments of the effects of global agricultural liberalization may find support.

A significant expansion of grain production in all major grain economies, in response to the strong market signals, should also help to ensure that Malthusians — who believe that population tends to increase at a faster rate than its means of subsistence — are not given comfort. In the long-term, expanding and stable trade flows need to be a win-win situation for all — producers and consumers, exporters and importers. □

□ HORMONE-TREATED MEAT: A TEST OF GLOBAL FOOD SAFETY RULES

By Charles E. Hanrahan, Senior Specialist in Agricultural Policy, Congressional Research Service

Agricultural expert Charles Hanrahan has spoken on food and farm policy in USIA-sponsored programs in France, Germany, Italy, Kenya, Madagascar, Mauritania, Rwanda, Senegal, Tanzania, Zaire, Zambia, and Zimbabwe. The Congressional Research Service provides objective and nonpartisan research and analysis for the U.S. Congress.

The United States on January 26, 1996 lodged a formal complaint with the World Trade Organization (WTO) over the European Union's (EU) ban on the importation of meat derived from animals treated with growth hormones. The ban, which went into effect on January 1, 1989, has resulted in sharply lower U.S. exports of red meat to the European Union. According to the U.S. Department of Agriculture (USDA), the ban costs U.S. producers \$100 million annually. The U.S. challenge to the hormone ban is based on arguments that it has no scientific basis, causes injury to U.S. livestock producers, and thus violates the 1994 Uruguay Round agreement on health and safety measures used to restrict imports (the so-called Sanitary and Phytosanitary Agreement, SPS). The U.S. complaint is a major test of the Uruguay Round's SPS agreement on strengthened rules and procedures for dealing with food safety and health measures that restrain trade and of the WTO's dispute settlement process.

This case is the first major SPS measure to reach the panel phase of the WTO's dispute settlement process. As such, the precedent established in this case will have important consequences for challenges to other SPS measures, which many see as rapidly proliferating as tariffs and other trade barriers are reduced or eliminated. A number of such disputes involving inspection and testing of agricultural products, shelf-life regulations for food products, and measures affecting importation of fish have already reached the consultation stage in WTO dispute settlement. Other current issues — for example, the use of synthetic hormones in milk production, and sanitary conditions in meat and poultry processing facilities — may be raised in the WTO dispute settlement process.

In the future, regulations concerning genetically altered plants and animals or other biotechnological innovations may also be brought to the WTO. Resolution of the meat-hormone issue and other SPS disputes will be a continuing test of the durability of international rules and procedures that appear to conflict with national policies concerning food safety.

USE OF HORMONES IN MEAT PRODUCTION

Hormones are widely used in the United States, as well as in other meat-exporting countries including Canada, Australia, New Zealand, Argentina, Uruguay, and Mexico, in beef production.

Livestock producers use hormones because they speed up growth rates and produce a leaner carcass more in line with consumer preferences for diets with reduced fat and cholesterol. Hormones enable producers to reduce costs by lowering the amount of feed necessary to produce meat while increasing the weight of a carcass significantly. Growth-promoting hormones approved for use in the United States are compounds that either naturally occur in an animal's body or mimic naturally occurring compounds. Generally, these compounds include estrogen, testosterone, or similar natural compounds. All such products used in the United States are manufactured in the form of implants that are placed beneath the skin on the backside of an animal's ear. The manufacture, marketing, and use of implants are regulated by the U.S. Department of Agriculture, which maintains that hormones in beef from an implanted animal have no physiological significance for humans.

THE EU HORMONE BAN

The EU Commission enacted its ban on production and importation of meat derived from animals treated with non-therapeutic growth hormones in 1985; it took effect on January 1, 1989.

The commission justified the ban as needed to protect consumer health and safety. The illegal use of hormones

in livestock production in several European countries, especially in Italy in the 1970s, was important in the commission's decision. In one well-publicized case, growth hormones (derivatives of stilbenes or thyrostatic substances) were reported to have been injected into the rump of a veal calf just before slaughter. The substance was thus concentrated in a small quantity of meat, which was eaten by a young boy who later began to develop breasts. None of the substances then in question are allowed for use in the United States.

Political and economic considerations also contributed to the commission's decision. Beef is a product covered under the EU's Common Agricultural Policy (CAP), and as such has benefited from both high domestic subsidies and high variable tariffs to protect it from import competition. The result was large beef surpluses, which were costly to store. Additionally, generous export subsidies moved excess supplies onto world markets. By 1985, these surpluses were so large that EU policy-makers were supportive of any measure that would limit beef imports.

EU attitudes have not changed significantly since 1985. EU consumer organizations continue to support the hormone ban, as do many European livestock producers, even though beef surpluses have virtually disappeared. Producers remain concerned about competition from possibly cheaper imported beef. In addition, EU agricultural policy-makers are resistant to policies that might accelerate the contraction of the agricultural sector and the move to urban areas where unemployment rates are high.

Livestock producers are also concerned about maintaining demand for beef in EU markets. Demand has been seriously affected by consumer concerns about low-fat diets, and by more dramatic circumstances, such as outbreaks in the 1980s in British cattle herds of bovine spongiform encephalopathy (BSE), a fatal brain disease commonly known as "mad cow disease." European livestock analysts attribute some of the decline in European beef consumption to consumer fears that humans could be infected by BSE. Most scientists believe the risks of that happening are slight. Although BSE is thought to be caused by a virus, many European beef producers fear doing anything that would give consumers a disincentive to buy meat.

EU political support for continuation of the hormone ban remains strong. On January 18, 1996, the European

Parliament voted unanimously to keep the ban, citing consumer worries, questions of animal welfare, meat quality, and effects on the EU's beef and milk sectors. EU farm ministers also responded to the U.S. threat of WTO dispute settlement by voting 14 to 1 on January 22, 1996, to maintain the ban. Only the United Kingdom voted to end it.

THE U.S. REACTION

During the 1986-88 period, the United States unsuccessfully challenged the EU's meat-importation ban in the Committee on Technical Barriers to Trade under the Standards Code of the General Agreement on Tariffs and Trade (GATT). The EU blocked resolution of the issue in the committee's deliberations. When the ban went into force on January 1, 1989, the United States retaliated by imposing tariffs on a number of EU agricultural products high enough to prohibit \$100 million of EU exports to the United States.

Under an "interim agreement" reached May 3, 1989, the EU agreed to set up a certification system that would generate a list of U.S. producers of hormone-free beef who would qualify to export to the EU. Animals would arrive at U.S. slaughterhouses accompanied by affidavits to support the producers' claims of hormone-free beef. The USDA's Food Safety and Inspection Service would ensure that animals came from producers certified by the EU system. U.S. retaliation on EU products would be reduced on an annualized basis by the amount of any beef or beef products shipped to the EU.

Although not entirely satisfactory to U.S. beef producers, the interim agreement prevented the outbreak of a trade war and provided for measured responses from both sides. During the 1990s, both sides looked to the Uruguay Round negotiations on SPS measures to provide some new basis for deciding the issue. U.S. livestock and meat producers and exporters have been pressing the Clinton administration to challenge the ban on the basis that it violates the 1994 Uruguay Round SPS agreement.

THE URUGUAY ROUND AGREEMENT

The difficulty of resolving such disputes was one reason the United States negotiated vigorously in the Uruguay Round for stronger rules about the use of SPS measures to restrict trade. Countries often apply such measures to imports based on considerations of food safety or of the health of people, animals, and plants; however, these

actions are often driven by protectionist sentiments also. Not only did the United States and other participants in the round seek clarification about the use of SPS measures in trade, but they also sought speedier and more effective dispute settlement mechanisms during the negotiations for all trade disputes.

The Final Act of the Uruguay Round included an agreement on SPS measures that requires a scientific basis for measures that restrict imports on the basis of health or safety concerns. Each country may set its own food safety and animal and plant health standards based on risk assessment and its determination of an acceptable level of risk, or it may use international standards. A country may maintain standards that are stricter than international standards, but these should be justified by science or by a nondiscriminatory lower level of acceptable risk that does not selectively target imports.

The SPS agreement provides that the new WTO dispute settlement procedures apply also to disputes about food safety and health measures. As under the GATT system, the dispute settlement process begins with consultations between the affected parties and then proceeds to a panel of experts if necessary. Under the new procedures, a party cannot block formation of a panel, and strict time limits are imposed on each step of the process. Once a panel has issued its report, no party to the dispute may block its adoption. However, one may appeal the panel's decision on questions of law or legal interpretation. A significant change in the process is that the complaining party automatically has the right to retaliate if the offending party does not implement the panel's recommendations within the agreed or arbitrated time limits. The offending party may still provide compensation in the event it does not withdraw the trade-restricting measure, but if satisfactory compensation cannot be agreed upon, the prevailing party may invoke the new retaliation rule. The entire process, if followed from initiation of consultations to implementation of a panel report, would take from 12 to 18 months.

RESOLVING THE MEAT-HORMONE ISSUE

Many trade analysts agree that the United States has a strong case against the hormone ban based on the new

WTO rules that require that SPS restrictions have a scientific justification. In fact, an EU conference, held in Brussels from November 29 to December 1, 1995, concluded that, on the basis of experience and published data, there was no evidence of human health risk arising "from the controlled use of five hormones: oestradiol beta 17, progesterone, testosterone, zeranol, and trenbolone. The conference warned that illegal hormone use was a global problem and that stricter controls were needed. The scientists also identified a need to better coordinate national control systems, to target surveillance systems, and to improve the efficacy of methods for detecting growth-promoting substances, whether used legally or illegally. Support for the U.S. complaint also came in July 1995 when the Codex Alimentarius Commission, an international organization that recommends food safety standards, voted to approve the use of natural hormones in meat production.

If the case makes it to the panel phase of WTO dispute settlement, and if the panel rules in favor of the United States, the EU could decide to maintain the ban while the United States continues its restrictions on EU agricultural imports. Were the EU and the United States unable to agree on some form of compensation, and were the EU to continue to refuse to comply with the panel report, the United States could request authorization to retaliate, a request likely to be granted automatically under the new dispute settlement rules. Some suggest, however, that continuing the ban under such circumstances would be dubious trade policy on the part of the EU; it would put it at odds with an international agreement it had only recently signed and make it vulnerable to similar trade restrictions in other situations. U.S. officials have suggested a compromise solution: that the United States and the EU agree on a system that allows hormone-treated meat to be imported into the European Union, as long as it is clearly labeled as such at the point of sale. The use of such "certificates of origin" was raised by U.S. Deputy Secretary of Agriculture Richard Rominger at a meeting in Berlin on January 18, 1996. Such an approach would provide greater access for U.S. meats into the EU and still give European consumers an opportunity to reject hormone-treated meat. U.S. livestock producer and exporter groups have indicated readiness to discuss such an approach. □

□ A VISION FOR FOOD AND AGRICULTURE IN THE 21ST CENTURY

By Per Pinstrup-Andersen, Director General, International Food Policy Research Institute

Per Pinstrup-Andersen, the head of the International Food Policy Research Institute (IFPRI), was formerly the director of the Food and Nutrition Policy Program at Cornell University in New York state. IFPRI is a private nonprofit research organization based in Washington, D.C., that was established in 1975 to identify and analyze policies for sustainably meeting the food needs of the developing world. IFPRI is one of 16 international research organizations supported by the Consultative Group on International Agricultural Research.

- About 800 million people do not have access to enough food to lead healthy and productive lives.
- About 185 million preschool children, one-third of all preschool children in developing countries, are malnourished.
- Close to 100 million of these children are in South Asia, while about 30 million are in sub-Saharan Africa.

We at the International Food Policy Research Institute project that the number of malnourished children will decrease between now and 2020 to a number slightly in excess of 150 million. Large decreases will be seen in South and East Asia, but in sub-Saharan Africa the number of malnourished children will increase to more than 40 million.

But we also believe that it is possible to end food insecurity, malnutrition, and degradation of natural resources if appropriate action is focused on those goals. Between now and 2020, world population is likely to increase by about 40 percent, to a total of 8 billion people. Sub-Saharan Africa's population will double over this period, and the population of Asia will increase by 1.5 billion people.

Population growth, along with rapid urbanization, income increases, and dietary changes, will result in an increase in food demand in developing countries of about 80 percent between 1990 and 2020, while the world as a

whole will increase its cereal demand by about 55 percent. Meat demand in developing countries will increase by a staggering 160 percent; world meat demand will increase about 75 percent. The percent increase in demand for roots and tubers will be slightly lower than that for cereals. These increases are large and will put tremendous pressures on production and marketing.

PRODUCTION PROSPECTS

How much of the demand is likely to be fulfilled through developing-country production? In 1990, developing countries had net cereal imports — the difference between demand and production — of around 90 million tons. We project that these will increase to about 190 million tons by 2020. Because sub-Saharan Africa is expected to continue its poor production performance relative to population growth, its net import requirements for cereals are projected to triple during this period.

Other recent IFPRI research shows a very strong correlation between investment in developing-country agriculture and those countries' imports. That is, for each dollar invested in research for developing-country agriculture, additional imports of \$4.00 will occur. Such additional imports translate into additional exports for the industrialized nations. Thus, investment in agricultural development in developing countries is good business for donor countries.

Research suggests that the net cereal import requirements of developing countries in 2020 will consist primarily of wheat and maize. There will also be a very large increase in net imports of meat in response to more rapid growth in developing countries, especially Asia.

Assuming that our projected production and import requirements are correct, per capita food availability will increase in all regions, but the increase will be very small in sub-Saharan Africa. By 2020, average daily calorie consumption per person in sub-Saharan Africa will still be only about 2,100 calories, as compared to 3,000 calories in Asia and 3,500 calories in the developed countries.

Notwithstanding the rapid price increases in cereals that have occurred over the past year or so, we believe that long-term trends for real food prices will continue to fall. Prices for wheat, rice, maize, beef, and roots and tubers are projected to fall significantly in real terms between now and 2020.

World grain stocks have decreased markedly during the last 10 years. Both the United Nations Food and Agriculture Organization and the U.S. Department of Agriculture project that, by mid-1996, grain stocks will be down to about 14 percent of annual world consumption. This share is lower than during the world food crisis in 1973.

Rapidly falling cereal prices during the 1980s and early 1990s have contributed to the falling stock levels. Changes in the European Common Agricultural Policy and the General Agreement on Tariffs and Trade have also contributed to lower stocks, and it is likely that world grain stocks will be considerably lower in the future than they have been in the past. This is likely to be reflected in the availability of food aid, which is currently about 60 percent of the level it was three years ago. Lower future grain stocks may imply larger price fluctuations in the future because the buffer available in periods of bad weather and production shortfalls in general will be smaller.

IMPORTANCE OF AGRICULTURAL RESEARCH

It is of critical importance that agricultural research result in reduced unit cost of production to make food economically accessible to low-income consumers and permit producer incomes to increase. The “green revolution” research reduced the cost of producing a ton of rice and wheat by about 30 percent.

We desperately need better information about land degradation, both about the magnitudes of degradation and about what degradation is doing to productivity and sustainability. One critical issue is the nutrient depletion of much of the agricultural soils of sub-Saharan Africa. Action is necessary to assure that more nutrients are added to these soils.

Together with the International Fertilizer Development Center, IFPRI has projected future growth in fertilizer use to be much lower during the next 25 years than it was during the last 30. For sub-Saharan Africa, this is grossly insufficient to deal with the soil-nutrient problem and to

support the needed production increases in that region.

Much more needs to be done to develop alternative crop protection methods, including integrated pest management, that will use significantly less chemical pesticides.

Availability of water to support current and future agricultural production is also an extremely serious matter. Twenty countries were water scarce in 1990, and as many as another 15 could be water scarce by 2020. Research and other action are urgently needed to improve water use efficiency.

Most increases in food production will have to come from yield increases. Some yield increases will occur as more inputs are used and as production methods are improved. However, accelerated investment in agricultural research is essential to achieve the productivity increases that will be needed.

Low-income developing countries invest less than 0.5 percent of the value of agricultural output in agricultural research. This compares to a little more than 2 percent for high-income countries. The situation is particularly bad in sub-Saharan Africa, where the annual growth rate in agricultural research expenditures decreased from 6.8 percent during the 1960s to essentially zero during the 1980s.

AREAS FOR ACTION

IFPRI has identified six areas for action. First, we must selectively strengthen the capacity of developing-country governments to perform appropriate functions such as establishing property rights and promoting private sector competition. We must also help them get out of areas that are best handled by the private sector or civil society.

Second, we must invest more in poor people. For a large share of the world's population to be malnourished, illiterate, sick, and without resources is not only unethical but wasteful. We must assure primary education, primary health care, and clean water and sanitation for all people; empower women; improve access to productive resources; and expand employment.

Third, we must accelerate agricultural productivity. Developing countries must increase their national agricultural research expenditures in the near term to 1 percent of the value of agricultural output, with a

longer-term target of 2 percent. IFPRI research shows very strong links between agricultural productivity increases and broad-based economic growth in the rest of the economy. Agriculture is an engine of growth in low-income countries; let us start the motor and keep it running.

Fourth, we must assure agricultural sustainability and sound management of natural resources. We need to improve water allocation and efficiency, reverse land degradation where it has occurred, reduce the use of chemical pesticides, and rehabilitate and protect marine fisheries. Most poor people in developing countries reside in rural areas, and most rural poor reside in less-favored geographical areas — that is, areas with agricultural potential, but irregular rainfall patterns and fragile soils. Yet most investment, including agricultural research investment, is still focused on the more-favored areas. The balance between investment in less-favored and more-favored areas must be redressed.

Fifth, we must reduce food marketing costs. The cost of bringing food from the producer to the consumer is extremely high in low-income developing countries.

Sixth, we must expand and reorient international development assistance. Many years ago, industrialized countries agreed to allocate at least 0.7 percent of their gross national product (GNP) to foreign assistance. Most countries do not maintain this target. The Organization for Economic Cooperation and Development countries as a whole have reduced foreign assistance over the last two or three years, and the United States is now down to an allocation of about 0.15 percent of GNP. We must increase international development assistance to reach the target and realign it to low-income developing countries.

External assistance to agriculture — both multilateral and bilateral — has declined significantly in real terms in the last 10 years. In view of the very strong links between foreign assistance to agricultural development and export-market creation for donor countries, it is not only in the interest of poor people but also in the interest of donors to reverse this trend.

With foresight and decisive action, we can create a better world for all people. We have the knowledge and the skills, and we still have the necessary resources including natural resources. Let us act now while we still have choices. □

FACTS AND FIGURES

□ CROP FORECAST 1995/1996

U.S. Department of Agriculture, April 1996

WHEAT

Top Producers (thousand metric tons)		Top Exporters (percent of total)		Top Importers (percent of total)	
China	100,000	United States	36.7	China	13.4
Euro. Union	86,584	Canada	18.6	Japan	6.5
India	65,470	Euro. Union	14.5	Brazil	6.2
United States	59,481	Australia	12.9	Egypt	6.2
East. Europe	34,990	Argentina	5.0	Russia	5.0
Russia	30,100	Kazakhstan	3.1	Indonesia	4.1
Canada	25,432			Iran	3.6
Pakistan	17,002			Algeria	3.4
Australia	16,623			Morocco	2.8
Turkey	15,550			S.Korea	2.6
Total world production		534,462			
Total volume traded		96,780			

CORN

Top Producers (thousand metric tons)		Top Exporters (percent of total)		Top Importers (percent of total)	
United States	187,305	United States	81.9	Japan	24.6
China	108,000	Argentina	8.0	S.Korea	13.6
Brazil	31,000	South Africa	1.9	Taiwan	9.1
Euro. Union	28,825	China	1.5	Mexico	6.4
East. Europe	24,550			Egypt	4.2
Mexico	16,000			Euro. Union	3.9
Argentina	10,500			China	3.0
South Africa	10,500			Indonesia	3.0
India	9,800			Brazil	1.9
Canada	7,251			Venezuela	1.7
Total world production		501,899			
Total volume traded		65,950			

SOYBEANS

Top Producers (thousand metric tons)		Top Exporters (percent of total)		Top Importers (percent of total)	
United States	58,560	United States	72.7	Euro. Union	46.3
Brazil	23,000	Brazil	10.0	Japan	15.3
China	14,000	Argentina	8.4	Taiwan	8.1
Argentina	12,300	Paraguay	3.9	Mexico	7.0
Paraguay	2,000	S. Korea	4.5		
Total world production		123,210			
Total volume traded		31,000			

RICE (milled)

Top Producers (thousand metric tons)		Top Exporters (percent of total)		Top Importers (percent of total)	
China	133,000	Thailand	31.3	Indonesia	8.5
India	79,000	United States	15.4	Brazil	7.1
Indonesia	32,200	India	14.2	Philippines	5.7
Bangladesh	18,000	Vietnam	11.4	Iran	4.6
Vietnam	16,600	Pakistan	8.0	Saudi Arabia	4.6
Thailand	14,400			Bangladesh	4.3
Burma	10,000				
Japan	9,780				
Philippines	7,000				
Brazil	6,700				
Total world production		369,960			
Total volume traded		17,565			

BARLEY

Top Producers (thousand metric tons)		Top Exporters (percent of total)		Top Importers (percent of total)	
Euro. Union	43,797	Euro. Union	31.1	Saudi Arabia	27.2
Canada	13,035	Australia	25.2	Japan	12.8
East. Europe	11,628	Canada	19.4	China	11.6
Turkey	6,900				
Australia	5,490				
Total world production		141,817			
Total volume traded		12,880			

SORGHUM

Top Producers (thousand metric tons)		Top Exporters (percent of total)		Top Importers (percent of total)	
United States	11,694	United States	81.4	Japan	40.7
India	9,700			Mexico	32.7
China	5,000			Euro.Union	16.8
Mexico	4,200				
Nigeria	3,800				
Sudan	2,800				
Total world production		50,687			
Total volume traded		5,650			

□ NAFTA AND AGRICULTURAL TRADE

U.S. Department of Agriculture Fact Sheet, May 1996

Implementation of the North American Free Trade Agreement (NAFTA) began on January 1, 1994. This agreement will remove most existing barriers to trade and investment among the United States, Canada, and Mexico, including barriers to trade in agricultural products.

Under the NAFTA, all nontariff barriers to agricultural trade between the United States and Mexico were eliminated. In addition, many tariffs were eliminated immediately, with others to be phased out, resulting in full implementation of all agricultural provisions by the year 2008.

The agricultural provisions of the U.S.-Canada Free Trade Agreement (FTA), in effect since 1989, were incorporated into the NAFTA. Under these provisions, all tariffs affecting agricultural trade between the United States and Canada are to be removed by January 1, 1998.

Mexico and Canada reached a separate bilateral NAFTA agreement on market access for agricultural products. The Mexican-Canadian agreement will eliminate most tariffs either immediately or over 5, 10, or 15 years. Tariffs between the two countries affecting trade in dairy, poultry, eggs, and sugar are maintained.

The NAFTA includes provisions for future enlargement. In 1995, discussions began with Chile on NAFTA membership. The NAFTA is also viewed as an important building block toward the proposed Free Trade Area of the Americas.

U.S. TRADE WITH MEXICO

Under the NAFTA, all nontariff measures affecting agricultural trade between the United States and Mexico were eliminated on January 1, 1994. These barriers — including Mexico's import licensing system (which had been the largest single barrier to U.S. agricultural sales) — were converted to either tariff rate quotas or ordinary tariffs.

All agricultural tariffs between Mexico and the United States will be eliminated. Many were immediately eliminated and others will be phased out over transition

periods of 5, 10, or 15 years. In fact, more than half the value of agricultural trade became duty free when the agreement went into effect. On January 1, 1996, the third round of tariff cuts with Mexico went into effect. Duty-free U.S. access increased 3 percent under Mexico's tariff-rate quotas covering corn, dried beans, poultry, barley, animal fats, eggs, and potatoes.

U.S. TRADE WITH CANADA

Under the U.S.-Canada Free Trade Agreement, implemented in 1989 and now incorporated into NAFTA, tariffs and other barriers have been reduced or eliminated. U.S. exports of agricultural products to Canada are now running 85 percent above the pre-FTA five-year average, having reached a record \$5.8 billion in fiscal 1995. U.S. exports to Canada are forecast to set another record in fiscal 1996. Agricultural imports from Canada have also increased substantially, reaching \$5.4 billion in fiscal 1995.

U.S. export growth to Canada has been particularly strong for consumer foods, led by fruits and vegetables. Exports of live animals and red meats have also shown excellent growth compared with pre-FTA levels. Even dairy, poultry, and egg exports have increased, despite the substantial trade barriers that still exist in those sectors. The first NAFTA dispute settlement panel has been established to review the higher tariffs Canada is applying to dairy, poultry, eggs, and barley, products that were subject to nontariff barriers before implementation of the Uruguay Round agreements.

SAFEGUARD PROVISIONS

Both Mexico and the United States protected their import-sensitive sectors with longer transition periods and tariff-rate quotas. NAFTA side agreements also contain special provisions for sugar and frozen concentrated orange juice, two particularly sensitive products.

Mexico and the United States also agreed to special safeguard provisions for certain products to provide relief against import surges. A specified quantity of a selected product is allowed to enter at low or preferential NAFTA

duty rates. Higher tariffs are automatically triggered when imports reach a specified level. The United States applies this special safeguard on imports of onions, tomatoes, eggplants, chili peppers, squash, and watermelons. Mexico, in turn, applies this special safeguard on three groups of products — live swine and most pork products, apples, and potato products.

OTHER KEY NAFTA PROVISIONS

Sanitary and Phytosanitary Measures: The NAFTA imposes disciplines on the development, adoption, and enforcement of sanitary and phytosanitary (SPS) measures. These are measures taken to protect human, animal, or plant life or health from risks that may arise from animal or plant pests or diseases, or from food additives or contaminants. Disciplines contained in the NAFTA are designed to prevent the use of SPS measures as disguised restrictions on trade, while still safeguarding each country's right to protect consumers from unsafe products, or to protect domestic crops and livestock from the introduction of imported pests and diseases.

Although the NAFTA encourages trading partners to adopt international and regional standards, the agreement explicitly recognizes each country's right to determine the necessary level of protection. Such flexibility permits each country to set more stringent standards, as long as they are scientifically based. The NAFTA also allows U.S. state and local governments to enact standards more stringent than those adopted at the national level, so long as these standards are scientifically defensible and are administered in a forthright and expeditious manner.

Subsidies: The three NAFTA countries will work toward the elimination of export subsidies in North America, in pursuit of the broader objective of eliminating such subsidies worldwide. The United States and Canada will be allowed to provide export subsidies into the Mexican market to counter subsidized exports from other countries. Neither Canada nor the United States is allowed to use direct export subsidies for agricultural products being sold to the other, and both countries are required to consider the export interests of the other whenever subsidizing agricultural exports to third countries.

Internal Support: Under the NAFTA, the parties should endeavor to move toward domestic support policies that have minimal trade- or production-distorting effects, or

toward policies exempt from domestic support reduction commitments under the World Trade Organization.

Grade and Quality Standards: The United States and Mexico agreed that when either country applies a measure regarding the classification, grading, or marketing of a domestic product destined for processing, it will provide no less favorable treatment for like products imported for processing.

Rule of Origin: The NAFTA rules of origin for agricultural products were constructed to prevent Mexico from becoming an export platform for processed products made from subsidized raw materials originating in non-NAFTA countries. There are also particularly strong rules of origin for U.S. import-sensitive commodities, such as citrus and dairy products.

Bulk Commodities: All bulk agricultural commodities, and certain processed products such as orange juice and cheese, are exempt from the de minimis provision, which otherwise allows up to 7 percent of non-NAFTA-origin product to be included in final NAFTA goods.

Citrus: All single-fruit juices (fresh, frozen, concentrated, reconstituted, and fortified) must be made from 100-percent NAFTA-origin fresh citrus fruit. The de minimis provision does not apply to any citrus products.

Dairy Products: Only U.S. or Mexican milk or milk products can be used to make cream, butter, cheese, yogurt, ice cream, or milk-based drinks traded under NAFTA preferential rates.

Vegetable Oils: With the exception of certain industrial fatty acids and acid oils, refining of crude oils within a NAFTA country does not confer NAFTA origin. Making margarine and hydrogenated oils from imported crude oils does not confer origin.

Sugar: Refining does not confer origin. In order for sugar to be considered of North American origin, all processing of sugar cane or sugar beets must take place in NAFTA territory.

Peanut Products: Mexico must produce the peanuts to qualify for NAFTA preferential rates on peanuts and peanut products exported to the United States. U.S. exports of peanut products to Mexico are subject to this same rule. □

❑ HACCP: A STATE-OF-THE-ART APPROACH TO FOOD SAFETY

U.S. Food and Drug Administration Consumer Reprint, December 1995

Technology designed to keep food safe in outer space may soon become standard here on Earth. The U.S. Food and Drug Administration (FDA), part of the Department of Health and Human Services, is adapting a food safety program developed nearly 30 years ago for U.S. astronauts for much of the U.S. food supply. The program for the astronauts focused on preventing hazards that could cause food-borne illnesses by applying science-based controls from raw materials to finished products. FDA's new system would do the same in an Earth-bound environment.

Traditionally, the U.S. food industry and its regulators have depended on spot-checks of manufacturing conditions and random sampling of final products to ensure safe food. This system, however, tends to be reactive, rather than preventive.

The new system is known as Hazard Analysis Critical Control Points, or HACCP. Many of its principles already are in place in the FDA-regulated low-acid canned food industry and have been incorporated into the most recent revision of FDA's Food Code. The Food Code serves as model legislation for state and territorial agencies that license and inspect food establishments in the United States.

In January 1994, FDA proposed regulations that would establish HACCP for the seafood industry. FDA issued its final rule on HACCP for seafood in December 1995, making the system effective in that industry.

A number of U.S. food companies already use the system in their manufacturing processes, and the U.S. Department of Agriculture (USDA) has proposed HACCP for the meat and poultry industry. (USDA regulates meat and poultry; FDA all other foods.) It is already in use in other countries, including Canada.

Recently, the FDA began steps that could result in this state-of-the-art food safety system becoming the standard for food safety in the United States. In an August 1994 advanced notice of proposed rule-making, the FDA announced that it was considering developing HACCP

regulations for many other segments of the U.S. food supply. These would include both domestic and imported foods. The agency asked for public comment on key issues, particularly from manufacturers that already use HACCP in their operations.

The FDA has invited food firms to participate in pilot HACCP programs to help the agency get additional information and experience on whether and how to design HACCP systems for foods other than seafood. Several firms have agreed to do so.

HACCP has been endorsed by the National Academy of Sciences, the Codex Alimentarius Commission (an international food standard-setting organization), and the National Advisory Committee on Microbiological Criteria for Foods.

WHAT IS HACCP?

HACCP involves seven steps:

1. Analyze hazards. Potential hazards associated with a food are identified. The hazard could be biological, such as a microbe; chemical, such as mercury; or physical, such as ground glass or metal.
2. Identify critical control points. These are points in a food's production — from its raw state through processing and shipping, to consumption by the consumer — at which a potential hazard can be controlled or eliminated. Examples are cooking, chilling, handling, cleaning, and storage.
3. Establish preventive measures with critical limits — temperature and time — for each control point. For a cooked food, for example, this might include setting the minimum cooking temperature and time required so as to ensure a safe product.
4. Establish procedures to monitor the control points. Such procedures might include determining how and by whom cooking time and temperature should be monitored.

5. Establish corrective actions to be taken when monitoring shows that a critical limit has not been met — for example, reprocessing or disposing of food if the minimum cooking temperature is not met.
6. Establish effective record-keeping to document the HACCP system.
7. Establish procedures to verify that the system is working consistently — for example, testing time-and-temperature recording devices to verify that a cooking unit is working properly.

Each of these steps would have to be backed by sound scientific knowledge: for example, published microbiological studies.

NEED FOR HACCP

New challenges to the U.S. food supply prompted the FDA to consider adopting a HACCP-based food safety system. One of the most important challenges is the increasing number of new food pathogens. For example, between 1973 and 1988, bacteria not previously recognized as important causes of food-borne illness — such as *Escherichia coli* 0157:H7 and *Salmonella enteritidis* — became more widespread. There also is

increasing public health concern about chemical contamination of food; for example, the effects of lead on the nervous system.

Another important factor is that the size of the food industry has grown tremendously — in the amount of food manufactured domestically and in the number and kinds of foods imported to the U.S. market. At the same time, the FDA and state and local agencies have come under severe budget constraints in ensuring food safety.

HACCP offers a number of advantages over current procedures. Most importantly, HACCP:

- Focuses on preventing hazards from contaminating food;
- Is based on sound science;
- Permits more efficient and effective government oversight, primarily because record-keeping allows investigators to see how well a firm is complying with food safety laws over a period of time rather than how well it is doing on any given day;
- Places responsibility for ensuring food safety appropriately on the food manufacturer or distributor; and
- Helps U.S. food companies compete more effectively in the world market. □

INFORMATION RESOURCES

KEY CONTACTS AND INTERNET SITES

KEY CONTACTS

U.S. POLICY

U.S. Department of Agriculture

14th and Independence Avenue, S.W.
Washington, D.C. 20250 USA

Key telephone numbers:

Animal and Plant Health Inspection Service
(202) 720-2511
Economic Research Service (202) 219-0515
Food Safety and Inspection Service (202) 720-7943
Foreign Agricultural Service (202) 720-7115
Farm and International Trade Services (202) 720-2032

Food and Drug Administration of the U.S. Department of Health and Human Services

5600 Fishers Lane
Rockville, Maryland 20857 USA

Telephone:

Center for Food Safety and Applied Nutrition
(202) 205-4943

Office of the U.S. Trade Representative (USTR)

Suzanne Early, Assistant USTR for Agriculture
600 17th Street, N.W.
Washington, D.C. 20508 USA
Telephone: (202) 395-6127

AGRICULTURE, DEVELOPMENT, AND FOOD SECURITY

Consultative Group on International Agricultural Research

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433 USA
Telephone: (202) 473-8951
E-mail: cgiar@cgnet.com

International Food Policy Research Institute

1200 17th Street, NW
Washington D.C. 20036-3006 USA
Telephone: (202) 862-5600
E-mail: ifpri@cgnet.com

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433 USA
Telephone: (202) 477-1234
E-mail: books@worldbank.org

KEY INTERNET SITES

AGRICULTURE AND U.S. POLICY

U.S. Department of Agriculture (USDA)

- USDA Homepage: <http://www.usda.gov>
- Reports of USDA's Economic Research Service, National Agricultural Statistics Service, and World Agricultural Outlook Board: <ftp://usda.mannlib.cornell.edu/usda/>
- 1996 Farm Bill: <http://www.usda.gov/farmbill/index.htm>
- Foreign Agricultural Service (FAS): <http://www.usda.gov/>
- FAS Trade Policy: <http://ffas.usda.gov/ffas/tradepol.html>
- FAS World Food Summit:
http://ffas.usda.gov/ffas/food_summit/summit.html/

Food and Drug Administration (FDA)

Center for Food Safety and Applied Nutrition:
<http://vm.cfsan.fda.gov/list.html>

Office of the U.S. Trade Representative (USTR)

<http://www.ustr.gov/index.html>

For additional contacts and Internet sites on agriculture, please consult the special annex attached to Economic Perspectives, vol. 1, no. 6, on the U.S. Information Agency's International Home Page on the World Wide Web at <http://www.usia.gov/journals/journals.htm>.

DEVELOPMENT, AGRICULTURE, AND FOOD SECURITY

International Food Policy Research Institute

<http://www.cgiar.org/ifpri>

UN Food and Agriculture Organization

<http://www.fao.org/>

The World Bank

<http://www.worldbank.org/html/>

INTERNATIONAL AGREEMENTS CONCERNING AGRICULTURE

World Trade Organization

<http://gatekeeper.unicc.org/wto/>

University of Tromso, Norway

http://itl.irv.uit.no/trade_law/documents/

AGRICULTURAL ECONOMICS

American Agricultural Economics Association

<http://www.aaea.org>.

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ECONOMIC TRENDS

The U.S. economy's performance over the last year, viewed quarter to quarter, has been rather rocky, surging ahead and then substantially slowing.

In the first quarter of 1996, the U.S. economy expanded at a 2.3-percent annual rate. Unemployment was below 6 percent, and inflation edged up only slightly despite a sharp increase in gasoline prices beginning in March.

In 1995 the economic expansion paused in the first half, creeping up at an annual rate of about 0.6 percent, then rushing ahead at a 3.6-percent rate in the third quarter. In the fourth quarter, the expansion slowed down to a 0.5-percent rate.

This unevenness aside, most analysts foresee gross domestic product (GDP) expanding by 2.0 to 2.5 percent in 1996. Unemployment is expected to stay below 6 percent. Inflation should be higher than in 1995, but will stay below 3 percent — as it has since 1992 after 26 years of nearly uninterrupted higher rates.

The “lumps and bumps” in quarterly growth represent an economy “undergoing two transitions,” said Martin Baily, a member of the President's Council of Economic Advisers, in early May. One transition, he said, is from a rapid expansion — such as the 1994 growth of 3.5 percent — to “more of a long-run sustainable growth rate.” The second is the “transition to a smaller federal government.”

A sharp increase in government purchases contributed to growth in the first three months of this year. But the first-quarter rise in consumer spending, which accounts for about two-thirds of GDP, was the biggest factor.

Inflation has been a concern because of the rapid increase in gasoline prices. Increased energy prices accounted for 60 percent of the 0.4-percent advance of the overall consumer price index (CPI) in April. Yet even with increased energy costs, the April rise in the CPI was the same as in March. Downturns in prices of other items kept the CPI from rising higher.

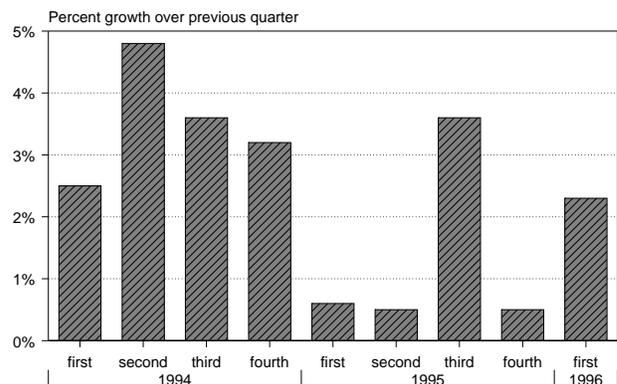
Moderate growth has apparently dampened workers' wage demands. Most areas of the United States have “reported tight labor markets but only scattered upward pressure on wages,” said the Federal Reserve, the U.S. central bank, in an April report.

Some members of the Federal Reserve Board have said that 2.0- to 2.5-percent annual GDP growth is sustainable, near the economy's growth potential, and compatible with keeping inflation under control. “The economy is growing modestly and is likely to continue to do so,” said J. Alfred Broaddus, president of the Federal Reserve Bank of Richmond, on June 3. “Two percent growth may not sound like a lot, but that would be a favorable outcome in my view,” he said.

The Index of Leading Economic Indicators, a broad measure of activities indicating the direction of the economy, also supports predictions of continued modest economic growth. The index, released June 3, rose 0.3 percent in April. This was the index's third consecutive monthly gain, a trend seen as a firm indication of continued growth.

Another positive development was release May 16 of U.S. Department of Labor preliminary data showing significant productivity growth and improvements in unit-labor costs during the first quarter of 1996. □

U.S. Gross Domestic Product Growth
(1st Quarter 1994 -- 1st Quarter 1996)



Source: Department of Commerce

CONGRESSIONAL CURRENTS

Key Economic Legislation
(as of June 6, 1996)

1997 FOREIGN AID APPROPRIATIONS

BILL NUMBER(S) H.R.3540 (Rep. Callahan)
DESCRIPTION Would reduce overall foreign aid spending, slash U.S. contributions to the International Development Association (IDA), and withhold funding for the African Development Bank and the proposed Middle East Development Bank. Aid levels to Egypt and Israel would be maintained.
HOUSE ACTION Approved by House Appropriations Committee May 29. Debate in the full House began on June 5.
SENATE ACTION No companion bill introduced to date.
STATUS/OUTLOOK Extensive changes are likely as bill moves through the legislative process.

GSP/SHIPBUILDING/U.S. TRADE WITH WEST BANK AND GAZA

BILL NUMBER(S) H.R.3074 (Rep. Crane)
DESCRIPTION Following House approval of a measure to grant Palestinian imports the same preferential treatment accorded products from Israel, the Senate Finance Committee amended the bill to incorporate two unrelated trade measures. The first would approve and implement the Organization for Economic Cooperation and Development (OECD) Shipbuilding Trade Agreement, which ends most subsidies to shipbuilders. The second would revive the Generalized System of Preferences (GSP) program — allowing duty-free entry for some imports from designated developing countries — which expired in July 1995.
HOUSE ACTION The House on April 16 approved and sent to the Senate the original version of H.R.3074, which comprised only the West Bank/Gaza trade provisions.
SENATE ACTION The Finance Committee amended the measure to incorporate the GSP and shipbuilding provisions, and reported it to the Senate floor May 13.
STATUS/OUTLOOK Finance Committee members hope to use the popular West Bank/Gaza trade bill as a vehicle for winning passage of the two other measures, but key opponents of the shipbuilding treaty could block the entire package.

U.S. TRADE WITH CHINA

BACKGROUND House and Senate members announced plans in early June to introduce bills that would reverse President Clinton's 1996-97 renewal of most-favored-nation (MFN) trading status for China.
HOUSE ACTION Rep. Rohrabacher sent a letter to colleagues seeking support for such a bill.
SENATE ACTION Sen. Helms introduced a resolution on June 6 that would reverse the president's decision.
STATUS/OUTLOOK Most observers expect these bills to fail. The United States first granted MFN to China in 1980, and has renewed it every year.

U.S. TRADE WITH THE CARIBBEAN

BILL NUMBER(S) H.R.553 (Rep. Crane) S.529 (Sen. Graham)
DESCRIPTION Both bills would provide certain Caribbean Basin countries temporary trade benefits equivalent to those accorded members of the North American Free Trade Agreement (NAFTA).
HOUSE ACTION H.R.553 approved by Ways and Means Trade Subcommittee and sent to full Committee for additional hearings.
SENATE ACTION S.529 referred to Senate Finance Committee. No hearings scheduled to date.
STATUS/OUTLOOK House aides say bills may be attached to larger measures to hasten passage.

U.S. TRADE WITH CAMBODIA

BILL NUMBER(S) H.R.1642 (Rep. Crane)
DESCRIPTION Would extend permanent most-favored nation (MFN) trading status to Cambodia.
HOUSE ACTION Approved bill on July 11, 1995, and sent it to the Senate.
SENATE ACTION Finance Committee approved bill on May 8, 1996, and sent measure to the Senate floor.
STATUS/OUTLOOK Legislative aides say bill has little opposition, but a busy legislative calendar may delay passage.

U.S. TRADE WITH BULGARIA

BILL NUMBER(S) H.R.2853 (Rep. Crane)
DESCRIPTION Would extend permanent most-favored nation (MFN) trading status to Bulgaria.
HOUSE ACTION Approved bill on March 5, 1996.
SENATE ACTION Finance Committee approved bill on May 8 and sent measure to Senate floor.
STATUS/OUTLOOK Legislative aides say bill has little opposition, but a busy legislative calendar may delay passage. □

CALENDAR OF ECONOMIC EVENTS

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|---|---|
| <p>Jun 3-14 Habitat II Conference; Istanbul, Turkey</p> <p>Jun 4-21 International Labor Organization (ILO) Conference; Geneva, Switzerland</p> <p>Jun 11-12 “Africa’s Economic Renewal,” conference sponsored by the Overseas Development Council; Washington, D.C.</p> <p>Jun 12 U.S.-EU Summit; Washington, D.C.</p> <p>Jun 17-19 . . . Asia Pacific Economic Cooperation (APEC) Regional Energy Cooperation Business Development Conference; Denver, Colorado</p> <p>Jun 17-21 . . . Paris Club Negotiations of creditor governments; Paris, France</p> <p>Jun 17-26 . . . Organization for Economic Cooperation and Development (OECD): Multilateral Agreement on Investment Negotiations; Paris</p> <p>Jun 25-26 . . . APEC Industrial Science Symposium on High and New Technology and Economy in the 21st Century; Beijing, China</p> <p>Jun 27-29 . . . Group of 7 (G-7) Summit (Canada, France, Germany, Italy, Japan, United Kingdom, United States); Lyon, France</p> <p>Jun 30 Deadline for reaching agreement on WTO Maritime Negotiations</p> <p>Jul 1-3 OECD Working Group on Bribery; Paris</p> <p>Jul 9-10 APEC Senior Officials Meeting on Sustainable Development; Manila, Philippines</p> <p>Jul 11-12 APEC Ministerial Meeting on Sustainable Development; Manila</p> <p>Jul 14-16 APEC Trade Ministers Meeting; Christchurch, New Zealand</p> | <p>Jul 14-18 Intellectual Property Rights Conference of the Americas; Los Angeles, California</p> <p>Jul 15-19 Paris Club Negotiations; Paris</p> <p>Sep 9-20 OECD: Multilateral Agreement on Investment Negotiations; Paris</p> <p>Sep 20-Oct 5 . UN Food and Agriculture Organization (FAO) Committee on World Food Security 22nd Meeting; Rome, Italy</p> <p>Sep 23-27 . . . Paris Club Negotiations; Paris</p> <p>Sep 25-27 . . . Fifth Annual World Economic Development Congress; Washington, D.C.</p> <p>Sep 29-Oct 1 . APEC Conference of Civic Leaders; Brisbane, Australia</p> <p>Oct 1-3 International Monetary Fund/International Bank for Reconstruction and Development Annual Meetings; Washington, D.C.</p> <p>Oct 1-9 APEC Senior Officials and Subcommittee Meetings; Manila</p> <p>Nov 12-13 . . . Third Middle East and North Africa Economic Summit; Cairo, Egypt [tentative]</p> <p>Nov 13-17 . . . World Food Summit; Rome</p> <p>Nov 22-23 . . . APEC Ministerial; Manila [tentative]</p> <p>Nov 24-25 . . . APEC Leaders Meeting; Manila [tentative]</p> <p>Dec 6-8 Summit of the Americas Follow-up Sustainable Development Summit; Santa Cruz de la Sierra, Bolivia</p> <p>Dec 9-13 WTO Ministerial; Singapore □</p> |
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WHAT'S NEW IN ECONOMICS: ARTICLE ALERT

Bienen, Henry; Herbst, Jeffrey. THE RELATIONSHIP BETWEEN POLITICAL AND ECONOMIC REFORM IN AFRICA (forthcoming in *Comparative Politics*, Fall 1996, 43 pp.)

Do developing countries face a "cruel choice" between economic growth and democracy? In the authors' views, neither Latin American nor Asian experiences are relevant for African LDCs. Reform yields no clear economic winners in Africa so, in the short and medium terms, there will be little correlation between political liberalization and economic reform. Herbst is traveling to South Africa and Mozambique in July 1996 for a USA-sponsored speaker program.

Bonser-Neal, Catherine. DOES CENTRAL BANK INTERVENTION STABILIZE FOREIGN EXCHANGE RATES? (*Economic Review*, Federal Reserve Bank of Kansas City, vol. 81, no. 1, First Quarter 1996, pp. 43-57)

Since adoption of a flexible exchange rate system in 1973, central banks of most industrialized countries have continued to intervene in foreign exchange markets, in part because exchange rate volatility has increased. Opinions differ on whether central banks can stabilize exchange rates. Bonser-Neal presents empirical evidence suggesting that central bank intervention does not generally reduce exchange rate volatility.

El-Erian, Mohamed A. MIDDLE EASTERN ECONOMIES' EXTERNAL ENVIRONMENT: WHAT LIES AHEAD? (*Middle East Policy*, vol. 4, no. 3, March 1996, pp. 137-146)

El-Erian, director of the Middle Eastern Department of the International Monetary Fund, shows the impact of the Uruguay Round and the globalization of capital on mostly Arab economies. He contends that the region will see few benefits, as markets are generally inward looking and inadequately diversified. He maintains that reducing the fiscal deficits that accompany incentives to the private sector is key to broadening the scope for foreign investment.

Kapstein, Ethan B. WORKERS AND THE WORLD ECONOMY (*Foreign Affairs*, vol. 75, no. 3, May/June 1996, pp. 16-37)

Kapstein, a member of the Council on Foreign Relations, argues that industrial-country governments must coordinate action to counter the effects of "globalization," which are wreaking havoc on jobs and wages even as restrictive fiscal policies are slashing social safety nets. Kapstein contends that a new coordination of policies is needed to create jobs and retrain workers.

Stern, Gary H. FORMULATING A CONSISTENT APPROACH TO MONETARY POLICY (*Federal Reserve Bank of Minneapolis: 1995 Annual Report*, vol. 10, no. 1, March 1996, pp. 3-19)

For the Federal Open Market Committee (FOMC), the goal of monetary policy is to achieve maximum economic performance over time, and the best way to do this is to maintain low inflation. Stern, president of the Federal Reserve Bank of Minneapolis, discusses the benefits of long-run low inflation, with emphasis on resource allocation. He points out that there currently is no way to ensure that short-run monetary policy decisions are consistent with long-run objectives.

Wolff, Jason R. PUTTING THE CART BEFORE THE HORSE: ASSESSING OPPORTUNITIES FOR REGIONAL INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN (*The Fletcher Forum of World Affairs*, vol. 20, no. 1, Winter/Spring 1996, pp. 103-136)

In contrast to earlier integration efforts that pursued import substitution, regional integration agreements in Latin America and the Caribbean during this decade have been based on previous unilateral liberalization. Global trade tariffs had been lowered by more than two-thirds from 1985 to 1992. Wolff describes constraints to further integration and explains how loose coordination can handle macroeconomic links. □